

7 June 2024

*To the Independent Board Committee and the Independent Shareholders*

Dear Sir or Madam,

**VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTIONS  
IN RELATION TO THE 2024 LEASE AGREEMENTS AND  
THE SUPPLEMENTAL LEASE AGREEMENTS**

**INTRODUCTION**

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the terms of the 2024 Lease Agreements, the Supplemental Lease Agreements and the transactions contemplated thereunder, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company dated 7 June 2024 (“**the Circular**”) of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

Reference is made to the announcement of the Company dated 15 December 2023 in relation to the 2023 Lease Agreements. As the 2023 Lease Agreements will expire on 30 June 2024 and the Board intends to continue to lease certain properties leased under the 2023 Lease Agreements, on 10 May 2024, the Group (as lessee) entered into the 2024 Lease Agreements with the Chaofu Group (as lessor).

On the same date (10 May 2024), the Group (as lessee) entered into the Supplemental Lease Agreements with the Chaofu Group (as lessor), to revise the fixed total rentals under the 2023 Lease Agreements.

**LISTING RULES IMPLICATIONS**

As at the Latest Practicable Date, Chaofu Company is the controlling shareholder of the Company (and hence a connected person of the Company), owning approximately 40.61% of the issued share capital of the Company. As both Hongchao Weiye and Jin Chaoyang are wholly-owned subsidiaries of Chaofu Company, Hongchao Weiye and Jin Chaoyang are therefore connected persons of the Company. Further, Chaopi Trading is a non-wholly owned subsidiary of the Company.

Pursuant to the PRC Accounting Standards for Business Enterprises No. 21 – Leases, the lease of the properties under the 2024 Lease Agreements will be recognised as right-of-use assets, the total value of which is estimated to be RMB417,176,413.23. The entering into of the 2024 Lease Agreement will be regarded as acquisitions of right-of-use assets by the Group under the Listing Rules.

Given that (i) the transactions under the 2023 Lease Agreements (as supplemented by the Supplemental Lease Agreements) and the 2024 Lease Agreements are of a similar nature and were all entered into within 12 months, and (ii) the lessors under the 2024 Lease Agreements are the same as those under the 2023 Lease Agreements and they belong to the same group of connected persons of the Company as set out above, the transactions under the 2023 Lease Agreements (as supplemented by the Supplemental Lease Agreements) and the 2024 Lease Agreements are required to be aggregated pursuant to the Listing Rules.

On an aggregate basis, as the highest applicable percentage ratio in respect of the 2023 Lease Agreements (as supplemented by the Supplemental Lease Agreements) and the 2024 Lease Agreements is more than 100%, the 2024 Lease Agreements, the Supplemental Lease Agreements and the transactions contemplated thereunder constitute very substantial acquisitions of the Company under Chapter 14 of the Listing Rules, and are therefore subject to the reporting, announcement, circular, and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

In view of the connected relationship set out above, the 2024 Lease Agreements, the Supplemental Lease Agreements and the transactions contemplated thereunder also constitute connected transactions of the Company. On an aggregate basis, as the highest applicable percentage ratio in respect of the 2023 Lease Agreements (as supplemented by the Supplemental Lease Agreements) and the 2024 Lease Agreements exceeds the 5% Threshold, the 2024 Lease Agreements, the Supplemental Lease Agreements and the transactions contemplated thereunder are also subject to the reporting, announcement, circular, independent financial advice and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

#### **INDEPENDENT BOARD COMMITTEE**

The Independent Board Committee comprising Mr. Wang Liping, Mr. Chen Liping and Mr. Kot Man Tat, being all the independent non-executive Directors, has been established to advise the Independent Shareholders in respect of the terms of the 2024 Lease Agreements, the Supplemental Lease Agreements and the transactions contemplated thereunder. We, Maxa Capital, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

#### **OUR INDEPENDENCE**

As at the Latest Practicable Date, we did not have any relationship with or interest in the Company, its subsidiaries and any other parties that could reasonably be regarded as relevant to our independence in accordance with Rule 13.84 of the Listing Rules and accordingly, were qualified to give independent advice to the Independent Board Committee and the Independent Shareholders in respect of the 2024 Lease Agreements, the Supplemental Lease Agreements and the transactions contemplated thereunder. Save for this appointment as the Independent Financial Adviser in respect of the 2024 Lease Agreements, the Supplemental Lease Agreements and the transactions contemplated thereunder, there was no other engagement between the Company and us in the past two years. Apart from normal advisory fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company, its subsidiaries, its associates or their respective substantial shareholders of associates.

## **BASIS OF OUR OPINION**

In formulating our opinion and recommendation, we have reviewed, among other things: (i) the 2024 Lease Agreements; (ii) the Supplemental Lease Agreements; (iii) the annual reports of the Company for the year ended 31 December 2022 (the “**2022 AR**”) and the year ended 31 December 2023 (the “**2023 AR**”); and (iv) the valuation report of (a) the 2024 Chaofu Property; (b) the 2024 Hongchao Weiye Properties I; (c) the 2024 Hongchao Weiye Property II; (d) the 2024 Hongchao Weiye Property III; and (e) the 2024 Jin Chaoyang Property (collectively, the “**Leased Properties**”) conducted by Beijing CEA Real Estate & Assets Appraisal Co., Ltd.\* (北京中企華土地房地產資產評估有限公司). We consider that we have reviewed sufficient and relevant information and documents, and have taken reasonable steps as required under Rule 13.80 of the Listing Rules to reach an informed view and to provide a reasonable basis for our recommendation. We have relied on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Directors and the management of the Group (the “**Management**”). We have reviewed, inter alia, the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors and the Management. We have assumed that (i) all statements, information and representations provided by the Directors and the Management; and (ii) the information referred to in the Circular, for which they are solely responsible, were true and accurate at the time when they were provided and continued to be so as at the Latest Practicable Date and the Shareholders will be notified of any material changes to such information and representations before the AGM. We have also assumed that all statements of belief, opinion, intention and expectation made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the representations and opinions expressed by the Company, its advisers and/or the Directors. We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent verification of the information included in the Circular and provided to us by the Directors and the Management nor have we conducted any form of in-depth investigation into the business and affairs or the future prospects of the Group.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement in the Circular misleading.

Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company. Where information in this letter has been extracted from published or otherwise publicly available sources, the sole responsibility of us is to ensure that such information has been correctly and fairly extracted, reproduced or presented from the relevant stated sources and not be used out of context.

## PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the 2024 Lease Agreements, the Supplemental Lease Agreements and the transactions contemplated thereunder, we have taken into consideration the following principal factors and reasons:

### 1. Background information of the Group

The Group is principally engaged in the retail and wholesale distribution of daily consumer products. The Company's revenue is classified by three segments: (i) the retailing business segment is mainly engaged in the distribution of food, untagged food, daily necessities, drinks and cigarettes, hardware and household appliances through department stores, hypermarkets, supermarkets and convenience stores; (ii) the wholesale business segment is mainly engaged in the wholesales supply of daily consumer products, including food, untagged food, beverage, drinks and cigarettes and daily necessities; and (iii) the others business segment is principally engaged in selling of plastic packing products, hotel services and school training services. As at 31 December 2023, the Group had 133 retail outlets in Beijing city and certain parts of Northern China peripheral to Beijing with a net operating area of 171,031 square metres ("sq.m.").

Set out below is a summary of the consolidated financial information of the Group for the years ended 31 December 2021 ("FY2021"), 31 December 2022 ("FY2022") and 31 December 2023 ("FY2023") as extracted from the 2022 AR and 2023 AR:

	For the year ended 31 December		
	2021	2022	2023
	RMB'000	RMB'000	RMB'000
	(audited)	(audited)	(audited)
<b>Revenue</b>	<b>11,056,555</b>	<b>9,541,354</b>	<b>9,467,889</b>
– Retail	3,243,963	3,398,362	2,977,313
– Wholesale	6,843,854	5,245,554	5,495,746
– Others	12,495	17,166	18,095
<b>Profit for the year</b>	<b>13,903</b>	<b>(65,039)</b>	<b>(52,740)</b>

#### ***FY2022 vs FY2021***

As illustrated in the table above, the Group's revenue amounted to approximately RMB9,541.4 million for FY2022, representing a decrease of approximately 13.7% as compared to approximately RMB11,056.6 million for FY2021. The decrease in the Group's revenue was mainly attributable to (i) decrease in revenue derived from the wholesale business by approximately RMB1,598.3 million, or approximately 23.4%, to approximately RMB5,245.6 million for FY2022 as compared to FY2021 mainly due to (a) the inability to accept or distribute commodity normally due to the pandemic restriction measures for the sales business and the reduction of sales orders under the continuous impact of the COVID-19 pandemic throughout FY2022, which had greater impact on the cross-border e-commerce business; (b) the adjustment to the commodity structure; and (c) the decline of the sales of commodities such as wine, beverage, etc. due to the impact of the COVID-19 pandemic; and was

partially offset by (ii) increase in revenue derived from the retail business by approximately RMB154.4 million, or approximately 4.8%, to approximately RMB3,398.4 million for FY2022 as compared to FY2021, which was mainly attributable to (a) an overall same-store sales increase of approximately 6.3% during FY2022; and (b) the Group, as a daily necessities support enterprise, has been benefited from an increase in retail sales during the pandemic period. As at 31 December 2022, the net operating area of the Group's retail outlets was 182,164 sq.m., representing a decrease of 23.7% as compared to 238,691 sq.m. as at 31 December 2021, which was mainly attributable to the close down of four supermarkets, 18 directly-operated convenience stores and a franchise-operated convenience store due to the expiration of leases and modifications to the operation strategy.

The Group recorded net loss of approximately RMB65.0 million for FY2022 as compared to the net profit of approximately RMB13.9 million for FY2021. The deterioration in the Group's financial performance for FY2022 was mainly due to the combined effects of (i) a one-off amortization of improvement expenses in the amount of approximately RMB23.4 million in connection with the Group's decision to cease rental of a premise from January 2022 which was mainly used for the operation of a supermarket and to early terminated a lease agreement entered into with a lessor; (ii) during FY2022, the loss on changes in fair value of the financial assets which have been held by the Company's non-wholly subsidiary since April 2018, in the amount of approximately RMB31.2 million when compared to the loss on changes in fair value of such financial assets in the amount of approximately RMB25.6 million during FY2021, due to the mark-to-market effect; (iii) the rentals waived by the Group (as lessor) during FY2022 in an aggregate amount of approximately RMB53.5 million (tax inclusive) pursuant to the rental waiver plan adopted by the Group on 27 May 2022 which was determined in accordance with the government policies relating to the mandatory rental waiver for the micro- or small-sized enterprises and individual business operators in the service industries, resulting in corresponding decrease in the other operating income for FY2022.

#### ***FY2023 vs FY2022***

The total revenue of the Group was approximately RMB9,467.9 million for FY2023, representing a decrease of approximately RMB73.5 million, or approximately 0.8%, as compared to approximately RMB9,541.4 million for FY2022. Such decrease in the revenue was primarily attributable to (i) the decrease in revenue derived from the retail business by approximately RMB421.0 million to approximately RMB2,977.3 million for FY2023 as compared to FY2022, which was mainly attributable to (a) the domestic social and economic activities began to return to normal (including the recovery of catering consumption), resulting in a decline in customer flow in the Group's stores and corresponding decrease in the Group's store sales in FY2023 compared to FY2022, resulting in a decrease in same-store sales of approximately 13.8%; and (b) due to lease expiration and business strategy adjustment, 8 supermarkets and 21 convenience stores have been closed since the beginning of 2022 and up to the present, resulting in a decline in sales; and was partially offset by (ii) the increase in revenue derived from the wholesale business by approximately RMB250.2 million, or approximately 4.8%, to approximately RMB5,495.7 million for FY2023 as compared to FY2022 mainly attributable to the increase in cross-border e-commerce business.

The Group recorded net loss of approximately RMB52.7 million for FY2023, representing a decrease of approximately RMB12.3 million, as compared to net loss of approximately RMB65.0 million for FY2022. The decrease of the Group's net loss for FY2023 was mainly attributable to the combined

effects of (i) decrease in gross profit from operations by approximately RMB115.2 million for FY2023 mainly due to the decline in sales of the retail business and increase in low-price promotions, leading to both decrease in gross profit and gross profit margin; (ii) decrease in selling expenses by approximately RMB111.8 million primarily due to (a) the reduction of market cost input borne by the Company and the change of the accounting method of downstream promotion cost; and (b) the closure of some leased stores resulting in the reduction of depreciation and amortization in selling expenses and energy and transportation expenses; and (iii) increase in non-operating income by approximately RMB23.1 million mainly due to the one off demolition compensation of approximately RMB19.3 million from the government during FY2023.

	<b>As at 31 December</b>		
	<b>2021</b>	<b>2022</b>	<b>2023</b>
	<i>RMB'000</i> <i>(audited)</i>	<i>RMB'000</i> <i>(audited)</i>	<i>RMB'000</i> <i>(audited)</i>
Non-current assets	2,998,068	2,629,618	2,184,094
Current assets	4,846,983	4,864,324	4,947,950
<b>Total assets</b>	<b>7,845,051</b>	<b>7,493,942</b>	<b>7,132,045</b>
Non-current liabilities	1,351,599	719,235	473,160
Current liabilities	4,423,720	4,843,813	4,826,017
<b>Total liabilities</b>	<b>5,775,319</b>	<b>5,563,048</b>	<b>5,299,177</b>
Net current assets	423,263	20,512	121,933
<b>Net assets</b>	<b>2,069,732</b>	<b>1,562,508</b>	<b>1,486,220</b>

***Total assets***

The Group had total assets of approximately RMB7,493.9 million as at 31 December 2022, which mainly comprised of (i) inventories of approximately RMB1,596.8 million; (ii) prepayment of approximately RMB1,022.7 million; (iii) accounts receivable of approximately RMB1,014.1 million; (iv) cash and bank balance of approximately RMB890.6 million; and (v) right-of-use assets of approximately RMB763.6 million. The decrease in the total assets by approximately RMB351.1 million to approximately RMB7,493.9 million as at 31 December 2022 as compared to that as at 31 December 2021 was mainly attributable to (i) decrease in right-of-use assets by approximately RMB218.0 million, mainly due to reduction of the book value of right-of-use asset caused by early termination of store lease and lease expires; (ii) decrease in long-term prepaid expenses by approximately RMB69.3 million, mainly due to disposal of construction in progress; and (iii) decrease in other non-current assets by approximately RMB53.3 million.

The Group had total assets of approximately RMB7,132.0 million as at 31 December 2023, which mainly comprised of (i) inventories of approximately RMB1,615.0 million; (ii) prepayment of approximately RMB1,006.4 million; (iii) accounts receivable of approximately RMB984.1 million; (iv) cash and bank balance of approximately RMB965.7 million; and (v) fixed assets of approximately RMB711.8 million. The decrease in the total assets by approximately RMB362.0 million to approximately RMB7,132.0 million as at 31 December 2023 as compared to that as at 31 December 2022 was mainly attributable to (i) decrease in right-of-use assets by approximately RMB231.6 million, mainly due to reduction of the book value of right-of-use assets caused by early

termination of store lease and lease expires; (ii) decrease in fixed assets by approximately RMB75.0 million; (iii) decrease in long-term prepaid expenses by approximately RMB66.0 million, mainly due to disposal of construction in progress; and was partially offset by (iv) increase in cash and bank balances by approximately RMB75.1 million.

#### ***Total liabilities***

The Group had total liabilities of approximately RMB5,563.0 million as at 31 December 2022, which mainly comprised of (i) short-term borrowings of approximately RMB2,213.5 million; (ii) accounts payable of approximately RMB857.2 million; (iii) notes payable of approximately RMB846.6 million; and (iv) lease liabilities of approximately RMB670.6 million. The decrease in the total liabilities by approximately RMB212.3 million to approximately RMB5,563.0 million as at 31 December 2022 as compared to that as at 31 December 2021 was mainly due to the combined effects of (i) decrease in bonds payables by approximately RMB403.5 million; (ii) decrease in leases liabilities by approximately 226.7 million; and was partially offset by (iii) increase in notes payable by approximately RMB379.2 million.

The Group had total liabilities of approximately RMB5,299.2 million as at 31 December 2023, which mainly comprised of (i) short-term borrowings of approximately RMB3,148.0 million; (ii) accounts payable of approximately RMB528.7 million; (iii) lease liabilities of approximately RMB445.1 million; and (iv) contract liabilities of approximately RMB312.2 million. The decrease in the total liabilities by approximately RMB263.9 million to approximately RMB5,299.2 million as at 31 December 2023 as compared to that as at 31 December 2022 was mainly due to (i) decrease in notes payable by approximately RMB544.6 million; (ii) decrease in accounts payable by approximately RMB328.5 million; (iii) decrease in lease liabilities by approximately RMB225.4 million; and was partially offset by (iv) increase in short-term borrowings by approximately RMB934.5 million.

#### ***Liquidity Position***

The Group's current ratios, calculated by dividing current assets by current liabilities, remained fairly stable at approximately 1.10 times, 1.00 times and 1.03 times as at each of 31 December 2021, 2022 and 2023, respectively.

## **2. Background information of Chaopi Trading, Chaofu Company, Hongchao Weiye and Jin Chaoyang**

Chaopi Trading is a limited company established in the PRC and a non-wholly owned subsidiary of the Company, where the Company owns approximately 79.85% of its equity interests. Chaopi Trading is principally engaged in the wholesale distribution of fast-moving consumer goods.

Chaofu Company is a state-owned enterprise ultimately managed and controlled by the Chaoyang SASAC. Chaofu Company is principally engaged in investment holding, provision of property management service and property leasing.

Hongchao Weiye is a company established in the PRC with limited liability and is a wholly-owned subsidiary of Chaofu Company. Hongchao Weiye is principally engaged in accepting entrustment of operation and management of state-owned assets and collective assets.

Jin Chaoyang is a company established in the PRC with limited liability and is a wholly-owned subsidiary of Chaofu Company. Jin Chaoyang is principally engaged in leasing business.

### **3. Reasons for and benefits of entering into the 2024 Lease Agreements and the Supplemental Lease Agreements**

#### ***3.1 The entering into of the 2024 Lease Agreements***

As disclosed in the Letter from the Board, as the Group is principally engaged in retail and wholesale distribution of daily consumer products, mainly operating supermarkets and convenience stores, the Group has ongoing operational needs to continue to lease certain properties leased under the 2023 Lease Agreements to maintain its current retail and wholesale operations. Given that the Group has long-term strategic and stable business relationships with Chaofu Group, the Directors are of the view that it is beneficial for the Group to continue to lease the properties from Chaofu Group under the 2024 Lease Agreements (with a term of five (5) years, except the 2024 Hongchao Weiye Lease Agreement III with a term of one (1) year), which will ensure the stability and continuity of the Group's operations (such that the business and revenue of the Group will not be seriously affected as a result of potential large scale relocation), save administrative costs associated with searching for comparable replacement of properties and capital expenditure in relocation and renovation.

We understand from the Management, the Group has established a long-term and stable relationship of leasing properties from Chaofu Group. Based on our review of the Company's prospectus dated 29 June 2007 in relation to the listing by way of introduction of the H Shares on the Main Board of the Stock Exchange, we note that the Group entered into various lease agreements since 2004 to lease certain properties situated in the Chaoyang District, Beijing, from Chaofu Group for terms of between 10 years to 20 years. The Management advised that such relatively long-term leases were beneficial to the Group's retail and wholesale business as the Group was able to secure the tenure of the leased properties at relatively stable rental cost in the past.

Based on our review of the 2024 Lease Agreements, we note that the total gross floor area ("GFA") of the properties to be leased from Chaofu Group was approximately 84,952 sq.m. (excluding the properties leased under the 2024 Hongchao Weiye Lease Agreement II which are intended for the wholesale related business). As disclosed in the 2023 AR, the net operating area of the Group's retail outlets as at 31 December 2023 was 171,031 sq.m. Therefore, the GFA leased under the 2024 Lease Agreements was material to the Group's retail business as it accounts for approximately 49.7% of the net operating area of the Group's retail outlets as at 31 December 2023. The Management advised that it would take considerable amount of time and administrative costs in order for the Group to identify suitable or comparable properties for relocation having considered the substantial amount of GFA involved under the 2024 Lease Agreements. In additions, the Group's financial performance



would be negatively impacted due to the disruption of the retail business and significant amount of capital expenditures required for renovation as a result of the relocation of the retail outlets.

In light of the above, we concur with the Directors' view that the stability and continuity of the Group's operations, particularly its retail outlet business, would be seriously affected should the Group failed to renew the lease terms of the properties under the 2024 Lease Agreements.

### **3.2 *The entering into of the Supplemental Lease Agreements***

As disclosed in the Letter from the Board, during the negotiation and preparatory stage of the 2024 Lease Agreements, the Independent Valuer has been engaged to conduct the valuation of the rentals in respect of the relevant properties under the 2024 Lease Agreements. The parties noted the significant difference between appraised level of rentals (forming the basis of the rentals under the 2024 Lease Agreements) and the rentals under the 2023 Lease Agreements (which were previously determined without having obtained a valuation by an independent professional valuer). Since the 2024 Lease Agreements are essentially a continuation of the 2023 Lease Agreements with certain scope adjustments taking into account actual business needs, as part of the commercial negotiations between the Group and the lessors, the relevant lessors required an act for good faith from the Group and requested that the rentals under the 2023 Lease Agreements be revised, with a view to setting the rentals (per sq.m. per day) of the 2023 Lease Agreements on the same or a similar level as those of the 2024 Lease Agreements or on the prevailing market level, with reference to the abovementioned rental valuation. While, as a result of the aforesaid scope adjustment, certain properties under the 2023 Chaofu Lease Agreement and 2023 Hongchao Weiye Lease Agreement I will no longer be leased (with further details set out in the principal terms of the relevant Supplemental Lease Agreements above) and thus are not within the scope of the 2024 Lease Agreements, the fixed total rentals of such properties are also adjusted to the prevailing market level (based on the said rental valuation) since they were previously determined based on the rental levels of the relevant Original Chaofu Lease Agreement and the Original Hongchao Weiye Lease Agreement I (as the case may be). The Group considers that the Supplemental Lease Agreements and the 2024 Lease Agreements are part of the same commercial package, which, as a whole, brings commercial benefits to the Group, and the entering into of the Supplemental lease Agreements will enhance the willingness and incentives of Chaofu Group to enter into the 2024 Lease Agreements. In this regard, the effectiveness of each of the Supplemental Lease Agreements is subject to the Independent Shareholders' approvals of not only the relevant Supplemental Lease Agreement but also the relevant 2024 Lease Agreement.

We have discussed with the Management and understand that, at the time of entering into of the 2023 Lease Agreements, both Chaofu Group and the Group had decided not to formally engage an independent professional valuer to appraise the rentals under the 2023 Lease Agreements given the relatively short tenure of the lease renewal (i.e. six months). In order to expedite the negotiation process, both parties agreed to determine the rentals under the 2023 Lease Agreements with reference to the rental level under the Original Chaofu Lease Agreements, the Original Hongchao Weiye Lease Agreement I, the Original Hongchao Weiye Lease Agreement II and the Original Jin Chaoyan Lease Agreement (collectively, the

“Original Lease Agreements”). Given that the Original Lease Agreements were entered back in 2004 and/or 2011 with relatively long leases terms ranging from 12 years to 20 years, the fixed rental near the end of the lease terms under the Original Lease Agreements would not precisely reflect the then prevailing market rents. Therefore, the rental rates of the 2023 Lease Agreements, which were determined with reference to the rental level of the Original Lease Agreements, could deviate from the prevailing market rents at the time of entering into the 2023 Lease Agreements. As per the Supplemental Lease Agreements, the revised fixed rentals, which are determined with reference to the market rentals appraised by the Independent Valuer, are substantially higher than the fixed rentals under the 2023 Lease Agreements. Therefore, it is apparent that the rental rates of the 2023 Lease Agreements were lower than the then prevailing market rates, which should be beneficial to the Group from the operating cost perspective.

Against this backdrop, the Management advised that Chaofu Group, at the time of negotiating the 2024 Lease Agreements, requested the Group to revise the existing rentals under the 2023 Lease Agreements to align with the prevailing market rents. From the legal perspective, we understand that the Group is not obliged to revise the rentals under the existing 2023 Lease Agreements. However, from the commercial standpoint, having regarded the long-standing relationship between Chaofu Group and the Group and the commercial benefits brought by the 2024 Lease Agreements, the Management considered that entering into of the Supplemental Lease Agreements plays a pivotal role in the commercial negotiation of the 2024 Lease Agreements with Chaofu Group. In additions, we note that the Supplement Lease Agreements are conditional upon the effectiveness of the 2024 Lease Agreements, which we consider to be in line with the Management’s assertion that the Supplemental Lease Agreements is part of the commercial arrangement under the 2024 Lease Agreements. Hence, we consider that, the entering into of the Supplemental Lease Agreements is justifiable as it incentives Chaofu Group and increase its willingness to enter into the 2024 Lease Agreement with the Group.

In view of the abovementioned, we concur with the Directors that entering into the 2024 Lease Agreements and the Supplemental Lease Agreements are in the interests of the Company and the Shareholders as a whole.

#### 4. **Principal Terms of the 2024 Lease Agreements and the Supplemental Lease Agreements**

The following information has been extracted from the Letter from the Board:

##### **The 2024 Lease Agreements**

###### *2024 Chaofu Lease Agreement*

<b>Date:</b>	10 May 2024
<b>Lessee:</b>	The Company
<b>Lessor:</b>	Chaofu Company

**Property to be leased:** The property located at No. 14, Zone 2, Gaojiayuan, Chaoyang District, Beijing\* (北京市朝陽區高家園二區14號), including the ancillary utility facilities, with a gross floor area of 584.18 sq.m. (the “2024 Chaofu Property”).

**Lease term:** The lease term of the 2024 Chaofu Property will be for five (5) years, commencing on 1 July 2024 and ending on 30 June 2029.

**Rental:** The total rental payable for the entire five-year lease term is RMB2,933,260.67 (tax inclusive; the total rental amount exclusive of tax is RMB2,793,581.59), with the breakdown (tax inclusive) as follows:

<b>Lease period</b>	<b>Rental payable (RMB)</b>
1 July 2024 to 30 September 2024	Nil (three months’ rent-free period)
1 October 2024 to 30 June 2025	457,369.13
1 July 2025 to 30 June 2026	609,825.50
1 July 2026 to 30 June 2027	609,825.50
1 July 2027 to 30 June 2028	628,120.27
1 July 2028 to 30 June 2029	628,120.27
<b>Total:</b>	<b>2,933,260.67</b>

*2024 Hongchao Weiye Lease Agreement I*

**Date:** 10 May 2024

**Lessee:** The Company

**Lessor:** Hongchao Weiye

**Properties to be leased:** A total of 32 properties located in Chaoyang District, Beijing, the PRC, including the ancillary utility facilities, with a total gross floor area of 57,633.75 sq.m. (the “2024 Hongchao Weiye Properties I”)

**Lease term:** The lease term of the 2024 Hongchao Weiye Properties I will be for five (5) years, commencing on 1 July 2024 and ending on 30 June 2029.

**Rental:** The total rental payable for the entire five-year lease term is RMB346,567,769.81 (tax inclusive; the total rental amount exclusive of tax is RMB330,064,542.68), with the breakdown (tax inclusive) as follows:

<b>Lease period</b>	<b>Rental payable (RMB)</b>
1 July 2024 to 30 September 2024	Nil (three months' rent-free period)
1 October 2024 to 30 June 2025	54,038,633.55
1 July 2025 to 30 June 2026	72,051,511.39
1 July 2026 to 30 June 2027	72,051,511.39
1 July 2027 to 30 June 2028	74,213,056.74
1 July 2028 to 30 June 2029	74,213,056.74
<b>Total:</b>	<b>346,567,769.81</b>

Among the 2024 Hongchao Weiye Properties I, it is expected that 6 properties with a total gross floor area of 4,340.74 sq.m. will be used for operating 6 convenience stores, 16 properties with a total gross floor area of 43,737.09 sq.m. will be used for operating 15 supermarkets, and 10 properties with a total gross floor area of 9,555.92 sq.m. will be leased out by the Group.

*2024 Hongchao Weiye Lease Agreement II*

<b>Date:</b>	10 May 2024
<b>Lessee:</b>	Chaopi Trading
<b>Lessor:</b>	Hongchao Weiye
<b>Property to be leased:</b>	Block No. 204, Shuanglong South Lane, Chaoyang District, Beijing* (北京市朝陽區雙龍南里204號樓), including the ancillary utility facilities, with a gross floor area of 9,051.6 sq.m. (the "2024 Hongchao Weiye Property II").
<b>Lease term:</b>	The lease term of the 2024 Hongchao Weiye Property II will be for five (5) years, commencing on 1 July 2024 and ending on 30 June 2029.
<b>Rental:</b>	The total rental payable for the entire five-year lease term is RMB45,608,437.23 (tax inclusive; the total rental amount exclusive of tax is RMB43,436,606.89), with the breakdown (tax inclusive) as follows:

<b>Lease period</b>	<b>Rental payable (RMB)</b>
1 July 2024 to 30 September 2024	Nil (three months' rent-free period)
1 October 2024 to 30 June 2025	7,111,502.69
1 July 2025 to 30 June 2026	9,482,003.58
1 July 2026 to 30 June 2027	9,482,003.58

<b>Lease period</b>	<b>Rental payable (RMB)</b>
1 July 2027 to 30 June 2028	9,766,463.69
1 July 2028 to 30 June 2029	9,766,463.69
<b>Total:</b>	<b>45,608,437.23</b>

*2024 Hongchao Weiye Lease Agreement III*

**Date:** 10 May 2024

**Lessee:** The Company

**Lessor:** Hongchao Weiye

**Properties to be leased:** Nine blocks (including block no. 1) at Yaojia Garden West Kou (Food Company), Chaoyang District, Beijing\* (北京市朝陽區姚家園西口(食品公司)1幢等9幢房屋), including the ancillary utility facilities, with a gross floor area of 12,239.16 sq.m. (the “**2024 Hongchao Weiye Property III**”).

**Lease term:** The lease term of the 2024 Hongchao Weiye Property III will be for one (1) year, commencing on 1 July 2024 and ending on 30 June 2025.

**Rental:** The total rental payable for the one-year lease term is RMB1,252,649.21 (tax inclusive; the total rental amount exclusive of tax is RMB1,192,999.25), with the breakdown (tax inclusive) as follows:

<b>Lease period</b>	<b>Rental payable (RMB)</b>
1 July 2024 to 30 September 2024	Nil (three months’ rent-free period)
1 October 2024 to 30 June 2025	1,252,649.21
<b>Total:</b>	<b>1,252,649.21</b>

*2024 Jin Chaoyang Lease Agreement*

**Date:** 10 May 2024

**Lessee:** The Company

**Lessor:** Jin Chaoyang

**Property to be leased:** The commercial premises located at Block No. 211, Wangjing South Lake Central Park, Chaoyang District, Beijing, the PRC\* (北京市朝陽區望京南湖中園211樓商業用房), including the ancillary utility facilities, with a gross floor area of 14494.6 sq.m. (the “2024 Jin Chaoyang Property”).

**Lease term:** The lease term of the 2024 Jin Chaoyang Property will be for five (5) years, commencing on 1 July 2024 and ending on 30 June 2029.

**Rental:** The total rental payable for the entire five-year lease term is RMB76,342,333.47 (tax inclusive; the total rental amount exclusive of tax is RMB72,706,984.26), with the breakdown (tax inclusive) as follows:

<b>Lease period</b>	<b>Rental payable (RMB)</b>
1 July 2024 to 30 September 2024	Nil (three months’ rent-free period)
1 October 2024 to 30 June 2025	11,903,690.25
1 July 2025 to 30 June 2026	15,871,587.00
1 July 2026 to 30 June 2027	15,871,587.00
1 July 2027 to 30 June 2028	16,347,734.61
1 July 2028 to 30 June 2029	16,347,734.61
<b>Total:</b>	<b>76,342,333.47</b>

In addition to the above terms, each of the 2024 Lease Agreements has stipulated the following terms (except the different uses stated below):

**Uses of the properties:** *For the 2024 Lease Agreements (other than the 2024 Hongchao Weiye Lease Agreement II):*

The lessee may use the leased property(ies) for retail related purposes, including but not limited to, operating supermarkets, storage and warehouses, investment promotion, joint operations, partial letting, and developing new operational projects.

*For the 2024 Hongchao Weiye Lease Agreement II:*

The lessee may use the leased property for wholesale related purposes, including but not limited to, office, storage and warehouses, investment promotion, joint operations, partial letting, and developing new operational projects.

**Payment:** The rentals shall be paid in advance on a half-yearly basis.

**Condition precedent:** The effectiveness of the relevant 2024 Lease Agreement shall be conditional upon obtaining the approval of the Independent Shareholders in respect of such agreement at a general meeting of the Company.

**Variation or termination:** Any variation or early termination of the relevant 2024 Lease Agreement shall be notified to the other party in writing three months in advance, and the variation or early termination shall be made only after a written agreement is entered into between the parties, and the party requesting the variation or early termination shall compensate the loss caused to the other party as a result of such variation or early termination.

Further, the rentals payable in respect of the 2024 Lease Agreements have been arrived at after arm's length negotiations between the parties thereto, with reference to, inter alia, (i) the valuation of the rentals conducted by the Independent Valuer, (ii) rental discount offered by Hongchao Weiye for the 2024 Hongchao Weiye Lease Agreement III (as compared to the appraised rental per annum), (iii) the prevailing market rentals of comparable properties in the area where the relevant properties are situated, and (iv) the expected inflation during the lease terms of the 2024 Lease Agreements.

#### **The Supplemental Lease Agreements**

##### *Supplemental Chaofu Lease Agreement*

**Date:** 10 May 2024

**Lessee:** The Company

**Lessor:** Chaofu Company

**Revision of the total fixed rental:** The fixed total rental under the 2023 Chaofu Lease Agreement shall be revised from RMB333,559.57 to RMB2,461,157.83, which is based on:

- (i) the total gross floor area of the 2023 Chaofu Properties of 5,606.92 sq.m., and among which, the lease of a part (with gross floor area of 2,230 sq.m.) of a particular property (Block No. 4, Hongmiao North Lane, Chaoyang District, Beijing\* (北京市朝陽區紅廟北里4號樓)) was discontinued on 2 April 2024; and
- (ii) revised rental per sq.m. per day ranging from RMB2.86 to RMB3.7, depending on the relevant properties concerned, with reference to:

- (a) the appraised level of rental of approximately RMB2.86 per sq.m. per day for the 2024 Chaofu Property; and
- (b) (for the other four properties which are not within the scope of the 2024 Lease Agreements) the appraised levels of rentals of approximately RMB2.90 to RMB3.7 per sq.m. per day.

The Company shall pay the difference in the amount of RMB2,127,598.26. in one lump sum upon the agreement taking effect.

**Condition precedent:** The effectiveness of the Supplemental Chaofu Lease Agreement shall be conditional upon obtaining the approvals of the Independent Shareholders at the general meeting of the Company in respect of both the Supplemental Chaofu Lease Agreement and the 2024 Chaofu Lease Agreement.

**Other:** Save as the above, other terms of the 2023 Chaofu Lease Agreement shall remain unchanged.

*Supplemental Hongchao Weiye Lease Agreement I*

**Date:** 10 May 2024

**Lessee:** The Company

**Lessor:** Hongchao Weiye

**Revision of the total fixed rental:** The fixed total rental under the 2023 Hongchao Weiye Lease Agreement I shall be revised from RMB4,225,047.81 to RMB40,960,512.59, which is based on:

- (i) the total gross floor area of the 2023 Hongchao Weiye Properties I of 77,794.46 sq.m., and among which, the lease of three properties (with total gross floor area of 1,168.86 sq.m.) was discontinued on 27 March 2024; and
- (ii) revised rental per sq.m. per day ranging from RMB0.37 to RMB10, depending on the relevant properties concerned<sup>(Note 1)</sup>, with reference to:



- (a) (for the properties which are the same as the 2024 Hongchao Weiye Properties I) the appraised levels of rentals ranging from approximately RMB1.44<sup>(Note 2)</sup> to RMB10 per sq.m. per day for the 2024 Hongchao Weiye Properties I;
- (b) (for one property being the same as the 2024 Hongchao Weiye Property III) the rental of approximately RMB0.37 per sq.m. per day for the 2024 Hongchao Weiye Property III, which is less than the appraised rental of RMB2.15 per sq.m. per day; and
- (c) (for other nine properties which are not within the scope of the 2024 Lease Agreements) the appraised levels of rentals of approximately RMB1.88 to RMB6.04 per sq.m. per day.

*Note 1: Excluding two properties with nil rent*

*Note 2: Excluding one property with nil rent*

The Company shall pay the difference in the amount of RMB36,735,464.78 in one lump sum upon the agreement taking effect.

**Condition precedent:** The effectiveness of the Supplemental Hongchao Weiye Lease Agreement I shall be conditional upon obtaining the approvals of the Independent Shareholders at the general meeting of the Company in respect of both the Supplemental Hongchao Weiye Lease Agreement I, the 2024 Hongchao Weiye Lease Agreement I and the 2024 Hongchao Weiye Lease Agreement III.

**Other:** Save as the above, other terms of the 2023 Hongchao Weiye Lease Agreement I shall remain unchanged.

*Supplemental Hongchao Weiye Lease Agreement II*

**Date:** 10 May 2024

**Lessee:** Chaopi Trading

**Lessor:** Hongchao Weiye

**Revision of the total fixed rental:** The fixed total rental under the 2023 Hongchao Weiye Lease Agreement II shall be revised from RMB472,260.37 to RMB4,741,001.79, which is based on:

- (i) the gross floor area of the 2023 Hongchao Weiye Property II of 9,051.6 sq.m.; and
- (ii) revised rental of RMB2.87 per sq.m. per day (with reference to the appraised rental of RMB2.87 per sq.m. per day for the 2024 Hongchao Weiye Property II).

Chaopi Trading shall pay the difference in the amount of RMB4,268,741.42 in one lump sum upon the agreement taking effect.

**Condition precedent:** The effectiveness of the Supplemental Hongchao Weiye Lease Agreement II shall be conditional upon obtaining the approvals of the Independent Shareholders at the general meeting of the Company in respect of both the Supplemental Hongchao Weiye Lease Agreement II and the 2024 Hongchao Weiye Lease Agreement II.

**Other:** Save as the above, other terms of the 2023 Hongchao Weiye Lease Agreement II shall remain unchanged.

*Supplemental Jin Chaoyang Lease Agreement*

**Date:** 10 May 2024

**Lessee:** The Company

**Lessor:** Jin Chaoyang

**Revision of the total fixed rental:** The fixed total rental under the 2024 Jin Chaoyang Lease Agreement shall be revised from RMB1,834,125 to RMB8,212,500, which is based on:

- (i) the gross floor area of the 2023 Jin Chaoyang Property of 15,000 sq.m.; and
- (ii) revised rental of RMB3 per sq.m. per day (with reference to the appraised level of RMB3 per sq.m. per day for the 2024 Jin Chaoyang Property).

The Company shall pay the difference in the amount of RMB6,378,375 in one lump sum upon the agreement taking effect.

**Condition precedent:** The effectiveness of the Supplemental Jin Chaoyang Lease Agreement shall be conditional upon obtaining the approvals of the Independent Shareholders at the general meeting of the Company in respect of both the Supplemental Jin Chaoyang Lease Agreement and the 2024 Jin Chaoyang Lease Agreement.

**Other:** Save as the above, other terms of the 2023 Jin Chaoyang Lease Agreement shall remain unchanged.

## 5. Assessment of the terms of 2024 Lease Agreements and Supplemental Lease Agreement

### 5.1 Basis of the rental

As disclosed in the Letter from the Board, (i) the rentals payable in respect of the 2024 Lease Agreements have been arrived at after arm's length negotiations between the parties thereto, with reference to, inter alia, (a) the valuation of the rentals conducted by the Independent Valuer, (b) rental discount offered by Hongchao Weiye for the 2024 Hongchao Weiye Lease Agreement III (as compared to the appraised rental per annum), (c) the prevailing market rentals of comparable properties in the area where the relevant properties are situated, and (d) the expected inflation during the lease terms of the 2024 Lease Agreements; and (ii) the revised fixed rentals of the surrendered properties in respect of the Supplemental Lease Agreement (the "**Surrendered Properties**", together with the Leased Properties, the "**Appraised Properties**") have been arrived after arm's length negotiations between the parties with reference to the valuation of the rentals conducted by the Independent Valuer.

Independent Shareholders' attention is drawn to the full text of the valuation report (the "**Valuation Report**") conducted by Beijing CEA Real Estate & Assets Appraisal Co., Ltd.\* (北京中企華土地房地產資產評估有限公司) the Independent Valuer, as set out in Appendix III to the Circular. We have reviewed the Valuation Report and save for the annual rental for the 2024 Hongchao Weiye Lease Agreement III is different from the appraised annual rental due to the discount offered by Hongchao Weiye, we did not identify any difference between (i) the annual rentals for the first three years and the appraised annual rental of the Leased Properties; and (ii) the revised annual rentals and the appraised annual rental of the Surrendered Properties.

#### *The Valuation Report*

In order to assess the expertise and independence of the Independent Valuer, we have obtained and reviewed (i) the engagement letter of the Independent Valuer; and (ii) the Independent Valuer's relevant qualifications and experience. We understand that the Independent Valuer is a long-established professional valuation firm since 1994 with possession of relevant professional qualifications and experience required to perform the Valuation Report and the person in-charge of the valuation, being Mr. Liu Hongshuai, is a Certified China Real Estate Appraiser, a director of the China Institute of Real Estate Appraiser and Agent, and a member of the Hong Kong Institute of Surveyors with over 20 years of experience in the property valuation and advisory services in the Mainland China. For due diligence purpose, we have

conducted telephone discussion with the working team of the Independent Valuer to understand its previous experiences on valuation projects, the methodologies, basis and assumptions they have adopted in the Valuation Report as well as the steps and measures taken by the Independent Valuer in conducting the valuation. We also understand from the Independent Valuer that it has carried out on-site inspections and made relevant enquiries and researches for preparing the Valuation Report. The Independent Valuer confirmed that it is independent from the Group and their respective associates. Based on the above, we consider that the Independent Valuer is qualified and possesses relevant experience in conducting the valuations, and the terms and scope of the engagement between the Company and the Independent Valuer are appropriate to the opinion the Independent Valuer is required to give.

We have reviewed the Valuation Report and discussed with the Independent Valuer on the methodologies of, and basis and assumptions adopted therein. We understand that the Independent Valuer has adopted the direct comparison method by making reference to comparable market rentals as available in the subject locality. The direct comparison method rests on the wide acceptance of the market transactions as the best indicator and pre-supposes that evidence of relevant transactions in the market place can be extrapolated to similar properties, subject to allowances for variable factors. Given that the rentals of the Appraised Properties under valuation have sufficient comparable transactions in the relevant market, the Independent Valuer considers that the direct comparison method is a suitable method for valuing the rentals of the Leased Properties. We understand from the Independent Valuer that direct comparison method is fully in line with the relevant valuation and market standards for appraising the annual rentals of properties in the PRC.

We have discussed with the Independent Valuer and understand that the Appraised Properties consist of 50 properties with lease area ranging from 52.2 sq.m. to 16,919.69 sq.m. and the Independent Valuer has identified three comparable properties for each of the Appraised Properties. We have reviewed the list of comparable properties identified by the Independent Valuer for each of the Appraised Properties. We understand from the Independent Valuer that each list of three comparable properties form an exhaustive list of the properties most comparable to each of the Appraised Properties in terms of nature of transaction, time, location, usage, lease area, floor level and other relevant factors (the “**Selected Comparable Properties**”). We note that (i) the Selected Comparable Properties are of commercial use with the locations in the same district of the Appraised Properties in Beijing; (ii) the daily rents of Selected Comparable Properties is gathered by the Independent Valuer from on-site inspection or telephone inquiry with real estate agencies in March 2024 before the date of the 2024 Lease Agreements and Supplemental Lease Agreements. The Independent Valuer has made relevant adjustments, including degree of business prosperity, street frontage condition, location, year of construction, decoration, lease area and floor level of the properties to take into account the differences between the comparable properties and each of the Appraised Properties, and then use the average adjusted daily rent of the three comparable properties multiplied by the lease area and multiplied by 365 days to calculate the valuation of the annual rental of each of the Appraised Properties.

In order to cross-check the market annual rentals of the Appraised Properties, we have conducted a search of comparable properties for each of the Appraised Properties on an online real estate agency platform in late April 2024 for commercial real estates in close proximity to the Appraised Properties and located within the Chaoyang District, Beijing, being the area where the Appraised Properties are situated, with lease area within the range of (i) less than 1,000 sq.m.; (ii) 1,000 sq.m. to 3,400 sq.m.; (iii) 3,401 sq.m. to 10,000 sq.m. and (iv) over 10,000 sq.m., considering different lease area of each of the Appraised Properties and currently available for lease in the real estate lease market. The separate range of lease area is determined with reference to the average operating area of different scale of retail outlets as disclosed in the 2023 AR. According to the 2023 AR, the Company is principally operating convenience stores, supermarkets, hypermarkets and department stores with average operating area of approximately 192 sq.m., 1,742 sq.m., 5,026 sq.m. and 27,800 sq.m., respectively. Therefore, we consider that the lease area range adopted above will be suitable for identifying comparable properties which match with the type of retail outlets operated by the Group. Based on such selection criteria, on a best effort basis, we have identified a list of three to five comparable properties for each of the Appraised Properties (the “Reference Properties”) and we note that (i) the average adjusted daily rents of 47 properties of the Appraised Properties are not higher than the average daily rents of the Reference Properties; and (ii) the average adjusted daily rents of 3 properties of the Appraised Properties are higher than the average daily rents of the Reference Properties but within the range of daily rents of the Reference Properties.

In light of the above, we are of the view that the valuation methodologies adopted, together with the bases and assumptions for appraising the Appraised Properties are reasonable and acceptable.

Furthermore, we noted that a 3% increment on the annual rentals for every three years for the Lease Properties with reference to the expected inflation during the lease terms of the 2024 Lease Agreements has been taken into account by the Company. We have reviewed the consumer price index (the “CPI”) released by Beijing Municipal Bureau of Statistic and we noted that the CPI of Beijing has increased by approximately 1.1%, 1.8% and 0.4% for 2021, 2022 and 2023 and therefore the compound rate of increase between 2021 and 2023 (being a three-year period) would be approximately 3.3%. Taking into account that the CPI growth rate may have relevant impact on the rental market, we consider that the 3% increment on the annual rentals for every three years for the Lease Properties with reference to the expected inflation during the lease terms of the 2024 Lease Agreements to be reasonable.

## **5.2 Basis of the lease term of 2024 Lease Agreements**

The lease term of the 2024 Lease Agreement (except for the 2024 Hongchao Weiye Lease Agreement III) will be for five years, commencing on 1 July 2024 and ending on 30 June 2029.

In order to assess the reasonableness of the lease term of the 2024 Lease Agreements (except for the 2024 Hongchao Weiye Lease Agreement III), we have obtained and reviewed three randomly selected lease agreements entered into by the Company with independent third

parties and we note that the lease term of such lease agreements ranged from five years to fifteen years. As the lease term of the 2024 Lease Agreements will allow the Group to sustain stable daily operation of retail and wholesale business and it is normal for the Group to enter into lease agreement with lease term exceeding five years, we consider the lease term of the 2024 Lease Agreements is fair and reasonable.

Taking into account (i) the methodology, bases and assumptions adopted by the Independent Valuer in determining the market annual rental of the Leased Properties are appropriate; (ii) the rental payable under the 2024 Lease Agreements and the revised fixed rental payable under the Supplemental Lease Agreement is made with reference to the valuation of the Leased Properties which is fairly and reasonably determined by the Independent Valuer; and (iii) the 3% increment on the annual rentals for every three years for the Lease Properties with reference to the expected inflation is reasonably determined, we consider the terms of 2024 Lease Agreements and the Supplemental Lease Agreements to be fair and reasonable so far as the Independent Shareholders are concerned and is in the interests of the Company and the Shareholders as a whole.

#### **RECOMMENDATION**

Having taken into consideration the factors and reasons as stated above, we are of the view that (i) the terms of the 2024 Lease Agreements, the Supplemental Lease Agreements and the transactions contemplated thereunder, are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the entering into the 2024 Lease Agreements and the Supplemental Lease Agreements is in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the resolution to be proposed at the AGM for approving the 2024 Lease Agreements, the Supplemental Lease Agreements and the transactions contemplated thereunder.

Yours faithfully,  
For and on behalf of  
**Maxa Capital Limited**



**Dominic Cheung**  
*Managing Director*

*Mr. Dominic Cheung is a licensed person registered with the Securities and Future Commission of Hong Kong and a responsible officer of Maxa Capital Limited to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and has over 17 years of experience in corporate finance industry.*