Lego Corporate
Finance Limited
力高企業融資有限公司

31 July 2024

To the Independent Board Committee and the Independent Shareholders

Dear Sirs or Madams,

(1) CONNECTED TRANSACTION IN RELATION TO THE PROPOSED SUBSCRIPTION OF NEW DOMESTIC SHARES; AND (2) APPLICATION FOR WHITEWASH WAIVER

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committees and the Independent Shareholders in relation to the Domestic Share Subscription (including the Share Subscription Agreement and transactions contemplated thereunder, and the Specific Mandate) and the Whitewash Waiver, details of which are contained in the letter from the Board (the "**Letter from the Board**") in the circular of the Company dated 31 July 2024 (the "**Circular**"), to which this letter forms part. Unless the context otherwise requires, terms used in this letter shall have the same meanings as those defined in the Circular.

On 12 May 2024, the Company entered into the Share Subscription Agreement with Bailian Group. According to the terms of the Share Subscription Agreement, the Company has conditionally agreed to issue not more than 360,000,000 new Domestic Shares, and Bailian Group has conditionally agreed to subscribe in cash for 360,000,000 new Domestic Shares at the Subscription Price of RMB1.00 (equivalent to approximately HK$1.10051) per new Domestic Share, which is expected to raise gross proceeds of approximately RMB360 million (equivalent to approximately HK$396 million), and the net proceeds (after deduction of relevant costs and expenses) from the Domestic Share Subscription is expected to be approximately RMB357 million (equivalent to approximately HK$393 million).

香港中環畢打街20號會德豐大廈15樓1505室
Room 1505, 15/F, Wheelock House, 20 Pedder Street, Central, Hong Kong
T: +852 2128 9400 F: +852 2123 1746 www.legogroup.hk

As at the Latest Practicable Date, Bailian Group and its subsidiary, Shanghai Bailian, directly hold 289,661,400 Domestic Shares and 224,208,000 Domestic Shares, representing approximately 25.87% and approximately 20.03% of the Company's total issued share capital, respectively, pursuant to which, Bailian Group, Shanghai Bailian and parties acting in concert with any of them under the Takeovers Code collectively hold an aggregate of 513,869,400 Domestic Shares, representing approximately 45.90% of the Company's total issued share capital. In addition, according to the Equity Entrustment Agreement, Bailian Group entrusted the management of 254,160,000 Domestic Shares held by it to Shanghai Bailian, representing approximately 22.70% of the total issued share capital of the Company, and Shanghai Bailian shall exercise the Shareholder's rights of the entrusted Domestic Shares, except for the assets earning right and the disposal right, in accordance with the Articles of Association.

According to the Listing Rules, Bailian Group constitutes a controlling shareholder of the Company and hence, a connected person of the Company. Accordingly, the Domestic Share Subscription constitutes a connected transaction of the Company and is subject to reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

After completion of the Domestic Share Subscription and assuming no other changes to the issued share capital of the Company prior to Completion, Bailian Group, Shanghai Bailian and parties acting in concert with any of them under the Takeovers Code will together be interested in a total of 873,869,400 Domestic Shares, representing approximately 59.06% of the Company's enlarged issued share capital. As the Domestic Share Subscription will cause an increase in the shareholding of Bailian Group, Shanghai Bailian and parties acting in concert with any of them under the Takeovers Code in aggregate from approximately 45.90% to approximately 59.06%, pursuant to Rule 26.1 of the Takeovers Code, the issue of Subscription Shares to Bailian Group will give rise to an obligation on part of Bailian Group and Shanghai Bailian to make a mandatory general offer for all the securities of the Company not already owned or agreed to be acquired by Bailian Group, Shanghai Bailian and parties acting in concert with any of them.

On 6 June 2024, an application was made on behalf of Bailian Group and Shanghai Bailian to the Executive for the granting of the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Executive has indicated that it is minded to grant the Whitewash Waiver, subject to approval by at least 75% on the Whitewash Waiver and more than 50% on the Domestic Share Subscription (including the Share Subscription Agreement and the transactions contemplated thereunder, and the Specific Mandate) of independent votes by Independent Shareholders in accordance with Note 1 on dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver will be proposed by way of resolution to be passed by at least 75%, and the Domestic Share Subscription (including the Share Subscription Agreement and the transactions contemplated thereunder, and the Specific Mandate) will be proposed by way of resolution(s) to be passed by more than two-third, in each case of the vote that are cast either in person or by proxy at the EGM. Bailian Group, Shanghai Bailian and parties acting in concert with any of them and their respective associates and any Shareholders who are interested or involved in the Domestic Share Subscription (including the grant of Specific Mandate and approval of Share Subscription Agreement) and/or the Whitewash Waiver will be required to abstain from voting in respect of the resolutions to approve the Domestic Share Subscription (including the Share Subscription Agreement and the transaction contemplated thereunder, and the Specific Mandate) and the Whitewash Waiver at the EGM.

Pursuant to the Listing Rules, the Connected Transaction IBC (comprising all the independent non-executive Directors who have no direct or indirect interests in the Share Subscription Agreement and transactions contemplated thereunder, namely Mr. Xia Da-wei, Mr. Lee Kwok Ming, Don, Mr. Chen Wei and Mr. Zhao Xin-sheng) has been formed to advise the Independent Shareholders on whether the Domestic Share Subscription (including the Share Subscription Agreement and transactions contemplated thereunder, and the Specific Mandate) is fair and reasonable and make recommendations as to voting.

Pursuant to Rule 2.8 of the Takeovers Code, the Whitewash Waiver IBC (comprising all the non-executive Directors and independent non-executive Directors who have no direct or indirect interest in the Domestic Share Subscription and the Whitewash Waiver, namely Ms. Hu Xiao, Mr. Wong Tak Hung, Mr. Xia Da-wei, Mr. Lee Kwok Ming, Don, Mr. Chen Wei and Mr. Zhao Xin-sheng) has also been formed to advise the Independent Shareholders as to the Share Subscription Agreement and the transactions contemplated thereunder, the Specific Mandate and the Whitewash Waiver and make recommendations as to voting. Since the non-executive Directors, Mr. Pu Shao-hua, Ms. Zhang Shen-yu and Ms. Yang Qin, are either directors or are holding senior positions in Bailian Group and/or its subsidiaries, they are not included as members of the Whitewash Waiver IBC.

OUR INDEPENDENCE

As at the Latest Practicable Date, Lego Corporate Finance Limited did not have any relationships or interests with the directors, chief executives and substantial shareholders of the Company or Bailian Group or Shanghai Bailian or any other parties that could reasonably be regarded as relevant to the independence of Lego Corporate Finance Limited. In the last two years prior to the Latest Practicable Date, we have acted as the independent financial adviser to the independent board committee and independent shareholders of the Company in relation to (i) the continuing connected transactions with respect to the procurement of goods framework agreement, goods supply framework agreement and sales agency framework agreement, details of which are set out in the circular of the Company dated 16 November 2022; and (ii) the very substantial connected acquisition with respect to the supplemental agreement of the single asset management contract and the continuing connected transactions with respect to the sales agency framework agreement, details of which are set out in the circular of the Company dated 6 November 2023. Apart from normal professional fees payable to us in connection with this appointment and the transactions listed above, no arrangement exists whereby we have received or will receive any fees or benefits from the Group or any director, chief executive or substantial shareholders of the Company or Bailian Group or Shanghai Bailian or any of its subsidiaries, or their respective associates. Accordingly, we consider that we are eligible to give independent advice in respect of the Domestic Share Subscription (including the Share Subscription Agreement and transactions contemplated thereunder, and the Specific Mandate) and the Whitewash Waiver.

BASIS OF OUR OPINION

In formulating our opinion, we have relied on (i) the information and facts contained or referred to in the Circular; (ii) the information supplied by the Group and its advisers; (iii) the opinions expressed by and the representations of the Directors and the management of the Group (the "**Management**"); and (iv) 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 the Circular were true, accurate and complete in all 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 the Circular are true at the time they were made and continue to be true as at the date of the Circular and all such statements of belief, opinions and intention of the Directors and the management of the Group and those as set out or referred to in the Circular were reasonably made after due and careful enquiry. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and/or 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 the Circular 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 respects at the time they were made and continued to be so until the Latest Practicable Date. The Company shall inform the Independent Shareholders as soon as possible if there is any material change to such information and/or the content to this letter and/or change to our opinion up to and including the date of the EGM in accordance with Rule 9.1 of the Takeovers Code.

We consider that we have reviewed the relevant information currently available, including, but not limited to, (i) the Announcement made by the Company dated 12 May 2024; (ii) the annual report of the Company for the year ended 31 December 2023; (iii) the Share Subscription Agreement; and (iv) other information contained in the Circular, to reach an informed view and to justify our reliance on the accuracy of the information contained in the Circular 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, Bailian Group, Shanghai Bailian or any of their respective subsidiaries or associates.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendation, we have taken into consideration the following principal factors and reasons:

1. Information on the Group

The Group is principally engaged in retail chain business, including the operation of hypermarkets, supermarkets and convenience stores in the PRC.

Below is the summary of the financial information of the Group for the years ended 31 December 2022 and 2023 extracted from the annual report of the Company for the year ended 31 December 2023 (the "**2023 Annual Report**"):

	For the year ended 31 December	
	2022	**2023**
	RMB million	*RMB million*
	(audited and restated)	*(audited)*
Revenue	24,681	21,836
– Hypermarket	12,396	9,646
– Supermarket	10,691	10,514
– Convenience stores	1,496	1,587
Gross profit	3,382	2,781
Loss for the year attributable to owners of the Company	(207)	(791)

	As at 31 December	
	2022	**2023**
	RMB'000	*RMB'000*
	(audited and restated)	*(audited)*
Total assets	**22,988,706**	**20,989,143**
Non-current assets	13,058,410	13,386,445
Current assets	9,930,296	7,602,698
Total liabilities	**21,742,435**	**20,540,796**
Non-current liabilities	5,257,131	4,432,786
Current liabilities	16,485,304	16,108,010
Net assets	**1,246,271**	**448,347**

The Group derives over 90% of its revenue from the hypermarket segment and supermarket segment. According to the 2023 Annual Report, revenue of the Group declined from approximately RMB24,681 million for the year ended 31 December 2022 to approximately RMB21,836 million for the year ended 31 December 2023, which was mainly attributable to the decrease in revenue from hypermarket segment by approximately RMB2,750 million. Such decrease in revenue was primarily due to the decline in customer orders and weakening performance on the overall sales as a result of (i) the decline in the number of store visitors; (ii) slow recovery in consumer confidence; and (iii) cautious spending and the reduction of stockpiling after the pandemic.

Gross profit of the Group decreased from approximately RMB3,382 million for the year ended 31 December 2022 to approximately RMB2,781 million for the year ended 31 December 2023, and the overall gross profit margin of the Group slightly decreased from 13.70% for the year ended 31 December 2022 to 12.74% for the year ended 31 December 2023. According to the 2023 Annual Report, such slight decrease was mainly due to the increase in marketing efforts after the pandemic as well as the sales of ensuring commodities supply (mainly represented by fresh produce) which have higher gross profit margins accounted for a large proportion in the previous year.

The Group recorded net loss attributable to owners of the Company of approximately RMB791 million for the year ended 31 December 2023 as compared to net loss attributable to owners of the Company of approximately RMB207 million for the year ended 31 December 2022 primarily attributable to (i) the Group recognised share of loss of an associate of the Company, (ii) the store-closure adjustment of certain hypermarkets in Anhui and Jiangsu regions, which incurred losses, as in line with the Group's strategic development, and (iii) the decline in performance/sales arising from various factors such as the decreased number of in-store customers that generally encountered by the retailing industries as a result of the market conditions.

As at 31 December 2023, total assets of the Group was approximately RMB20,989 million, of which term deposits, right-of-use assets and property, plant and equipment amounted to approximately RMB5,209 million, RMB5,022 million and RMB3,222 million, representing approximately 24.8%, 23.9% and 15.4% of total assets of the Group, respectively. Total liabilities of the Group as at 31 December 2023 was approximately RMB20,541 million, of which contract liabilities amounted to approximately RMB8,899 million or accounting for approximately 43.3% of total liabilities of the Group. The Group recorded net assets of approximately RMB448.3 million as at 31 December 2023.

Based on the above analysis, it is noted that the Group's financial performance in 2023 has been adversely affected by the aftermath of the pandemic. Based on the year-on-year growth rates in total retails sales of consumer goods* (社會消費品零售總額) by retail formats in 2023 issued by the National Bureau of Statistics of China, the supermarkets sector is the only one which recorded a negative growth rate, as the speed of recovery in the supermarket industry was much slower than that of the food and beverage industry. Supermarkets were the only retail sector to experience a decline in growth, with the physical retail industry struggling to cope with the headwinds. In light of the challenges that the Group faces, the Group has adopted strategic focus on "segment and channel development, supply chain and product development, omni-channel development, logistics efficiency enhancement, digital efficiency enhancement, and organisation and talent efficiency enhancement" with a view to increase revenue, reduce costs and enhance efficiency, in order to achieve improvements in financial performance. Having considered the above, we concur with the Management that the Domestic Share Subscription will facilitate the funding needs of business ecological transformation of the Group, supporting its future growth and maintaining sustainable development as disclosed below in the section headed "3. Use of proceeds and reasons for the Domestic Share Subscription".

2. **Information on the parties involved**

Information relating to Bailian Group

The principal business of Bailian Group covers retail businesses such as theme department stores, shopping centres, hypermarkets, standard supermarkets, convenience stores and professional specialty stores, as well as fields including automobile trading, e-commerce, warehousing and logistics, consumer services and electronic information, etc. Bailian Group is owned as to 71% by Shanghai Municipal State-owned Assets Supervision and Administration Commission, 19% by Shanghai Land (Group) Co., Ltd., and 10% by Shanghai Municipal Finance Bureau.

Information relating to Shanghai Bailian

The core businesses of Shanghai Bailian include department stores, shopping centres, outlet malls and supermarket chains, and its current scope of business covers almost all types of retail business. Shanghai Bailian is a joint stock company listed on the Shanghai Stock Exchange (stock code: 600827/900923) and Bailian Group is the controlling shareholder of Shanghai Bailian with direct and indirect shareholding in aggregate of approximately 53.18%.

3. **Use of proceeds and reasons for the Domestic Share Subscription**

The Company expects to raise gross proceeds of approximately RMB360 million (equivalent to approximately HK$396 million) from the Domestic Share Subscription and the net proceeds (after deduction of relevant costs and expenses) from the Domestic Share Subscription are expected to be approximately RMB357 million (equivalent to approximately HK$393 million). The net Subscription Price per new Domestic Share (being the net proceeds per Subscription Share) is RMB0.99 (equivalent to approximately HK$1.09). The Company intends to apply the net proceeds from the Domestic Share Subscription as to:

(i) approximately 85% or RMB303 million of the net proceeds will be used for the business ecological transformation; and

(ii) approximately 15% or RMB54 million of the net proceeds will be used to enhance the general working capital of the Group.

As disclosed in the Letter from the Board, (i) approximately 39.2% (approximately RMB140 million) and 35.0% (approximately RMB125 million) of the net proceeds will be used for the conversion of supermarket and hypermarket outlets, respectively, including but not limited to upgrading product categories, vigorously developing key categories and proprietary brand; tailoring store layout to local conditions, developing boutique supermarkets and community shopping centres among other innovative formats; advancing store integration and increasing the density of stores outlet deployment in strategic areas; enhancing supply chain management and increasing the proportion of direct procurement for up to 2026; and (ii) approximately 10.8% (approximately RMB38 million) of the net proceeds will be used for driving digital transformation; upgrading digital systems for merchandising, procurement, logistics, finance, internal supply chains, and digital store systems, thus improving the Group's standardisation and management efficiency for up to 2026. The Company may adjust the progress of the use of net proceeds accordingly to meet the specific needs of its actual operations.

According to the 2023 Annual Report, due to the change in customer spending behaviour and the intensified price-competitive shopping channels, in 2023, the Group has exerted great efforts to promote the implementation of key segment models and accelerated the optimisation of transformation and position of the Group. The Group has embraced the concept of pragmatism with an aim to enhance overall competitiveness and to improve the financial performance of the Group, and has commenced an all-round transformation plan over different aspects of the Group, including upgrade and/or improvement of, business management, outlet operation, branding of product, outlet layouts, and IT infrastructure and system, etc. We were given to understand from the Management that, notable improvement had been achieved from the transformation completed in 2023 and the Company intends to apply most of the proceeds from the Domestic Share Subscription to further transform over 50 outlets of the Group in the next three years.

In light of the above, we concur with the Directors that the intended usage of net proceeds from the Domestic Share Subscription to perform the business ecological transformation, in particular, the development in the hypermarket segment, supermarket segment and IT projects of the Group are in line with the Group's corporate strategy and planning, and the use of proceeds provide a long-term benefit to the Group in terms of enhancing its overall financial performance and sustainability.

Alternative fundraising methods

The Company has considered other fundraising alternatives available to the Group before resolving to the Domestic Share Subscription, such as debt financing and other means of equity financing such as rights issue or open offer.

In respect of debt financing (such as bank borrowings), we were given to understand from the Management that the prevailing interest rates offered by certain banks in the PRC range from 3.0% to 4.5% per annum. For illustrative purpose, based on the gross proceeds of approximately RMB360 million and the lowest interest rate of 3.0% per annum, the Group would have to incur additional interest expenses of approximately RMB10.8 million per annum if the Company raised funds through debt financing. Having considered the loss-making position of the Group, the Board is of the view that debt financing would result in additional financial burden to the Group and increase the overall liabilities of the Group. In addition, debt financing generally involves pledge of assets, which potentially impairs the Group's flexibility in managing its assets portfolio. Hence, we concur with the Directors that debt financing is not a viable means in obtaining additional funds for the Group.

In respect of equity financing such as rights issue and open offer, the Directors consider that despite rights issue and open offer would allow the Shareholders to maintain their respective pro-rata shareholdings in the Company, the ultimate fundraising size could not be assured if the fundraising exercises are conducted on non-underwritten basis. Conversely, extra time may be required for the lengthy negotiation process with potential commercial underwriters, if such fundraising exercises are conducted on fully underwritten basis. Moreover, it may also incur certain transaction costs such as underwriting commission and involve extra administrative work for the preparation of the requisite compliance and legal documentation (such as prospectus and application forms, etc.), as compared to equity financing by issuance of Subscription Shares. The Domestic Share Subscription, on the other hand, could provide a higher certainty to the Company to raise the amount of funds as required.

In view of the foregoing, having considered (i) the overall time and costs required, as well as the uncertainties involved for the debt financing and equity financing (such as rights issue and open offer) as compared to that of the Domestic Share Subscription; and (ii) the overall low liquidity of the H Shares, we are of the view that the Domestic Share Subscription is comparatively a more appropriate and viable financing choice that allows the Company to raise sufficient funds quickly and at lower costs. For the analysis of liquidity of H Shares, please refer to the section headed "5. Analysis of the Subscription Price – (b) Liquidty of H Shares" below.

4. Principal terms of the Share Subscription Agreement

The major terms and conditions of the Share Subscription Agreement are set out as follows:

Date	12 May 2024
Parties	(1) The Company (as the issuer); and
	(2) Bailian Group (as the Subscriber).

Number of Subscription Shares	Pursuant to the Share Subscription Agreement, Bailian Group agreed to subscribe for 360,000,000 Subscription Shares, with par value of RMB1.00 each and an aggregate par value of RMB360,000,000. The Subscription Shares represent approximately 32.15% of the existing issued share capital of the Company as at the Latest Practicable Date and approximately 24.33% of the enlarged total issued share capital of the Company upon completion of the Domestic Share Subscription. Assuming there is no change to the issued share capital of the Company other than the issue of the new Domestic Shares pursuant to the Share Subscription Agreement, immediately after the Completion, Bailian Group will directly hold approximately 649,661,400 Domestic Shares, indirectly hold approximately 224,208,000 Domestic Shares through Shanghai Bailian, and hold an aggregate of 873,869,400 Shares, representing approximately 43.91%, 15.15% and 59.06% of the enlarged total issued share capital of the Company, respectively. Same with the Domestic Shares existing in issue, the transfer and subsequent sale of the Subscription Shares to be issued can be made in accordance with the relevant provisions of the Articles of Association, subject to the applicable PRC laws. The issue size of the Domestic Share Subscription is subject to adjustment as finally approved by the regulatory authorities and shall in any event not more than 360,000,000 Subscription Shares.
Subscription Price	RMB1.00 (equivalent to approximately HK$1.10051) per Subscription Share. For the purpose of this circular, all figures in HK$ are calculated based on the exchange rate of HK$1 to RMB0.90867 as quoted by The People's Bank of China as at the Last Trading Day. The Subscription Price is subject to corresponding adjustment upon the occurrence of any ex-rights and ex-dividend events including, among others, dividend distribution, bonus shares, capitalisation of capital reserve during the period from the date of the Announcement to the date of Completion, and the Company shall have the right to adjust the Subscription Price according to the final approval from the regulatory authorities, provided that the Subscription Price shall not be lower than the par value of RMB1.00 after adjustment.

The Subscription Price of RMB1.00 (equivalent to approximately HK$1.10051) per Subscription Share represents:

(1) a premium of approximately 185.85% to the prices of approximately HK0.385 per H Share based on the closing price as quoted on the Stock Exchange on the Latest Practicable Date;

(2) a premium of approximately 249.37% to the price of approximately HK$0.315 per H Share based on the closing price as quoted on the Stock Exchange on the Last Trading Day;

(3) a premium of approximately 273.05% to the average closing price of approximately HK$0.295 per H Share as quoted on the Stock Exchange for the last 5 consecutive trading days up to and including the Last Trading Day;

(4) a premium of approximately 323.27% to the average closing price of approximately HK$0.260 per H Share as quoted on the Stock Exchange for the last 10 consecutive trading days up to and including the Last Trading Day; and

(5) a premium of approximately 1,452.80% to the audited consolidated net asset value per Share attributable to the Shareholders as at 31 December 2023 of approximately RMB0.0644 (equivalent to approximately HK$0.0711) per Share calculated based on the audited consolidated equity attributable to owners of the Company of approximately RMB72,126,000 as at 31 December 2023 as extracted from the annual report of the Company for the year ended 31 December 2023 and 1,119,600,000 Shares then in issue (based on the exchange rate of HK$1: RMB0.90622 as at 29 December 2023 published by The People's Bank of China for illustration purposes).

The Subscription Price for the Domestic Share Subscription is determined after arm's length negotiations between the Company and Bailian Group, in accordance with the restriction under the Company Law of the PRC that the Subscription Price shall not be lower than the par value of RMB1.00, with reference to the net assets position of the Company, the view of Bailian Group on the future development of the Company, the recent price of H Shares and the prevailing market conditions. The total Subscription Price for the Domestic Share Subscription (i.e. RMB360,000,000) shall be payable by Bailian Group upon Completion.

Conditions precedent to the Share Subscription Agreement

The Domestic Share Subscription is conditional upon:

(1) the approval by the Board, the board of directors of Shanghai Bailian and the board of directors of Bailian Group;

(2) the Executive having granted, and not having withdrawn or revoked such grant, the Whitewash Waiver and the fulfilment of all conditions (if any) attached to the Whitewash Waiver;

(3) the approval by (i) at least 75% of the votes in favour cast by the Independent Shareholders at the EGM in respect of the Whitewash Waiver; and (ii) more than two-thirds of the votes in favour cast by the Independent Shareholders at the EGM in respect of the Share Subscription Agreement and the transactions contemplated thereunder and the Specific Mandate;

(4) the approval of the plan for the Domestic Share Subscription by Shanghai SASAC or its authorised organizations;

(5) the approval of registration by CSRC; and

(6) the shareholders of the Company, other relevant third parties and/or governmental or regulatory authorities or agencies (including the relevant authorities in the PRC and Hong Kong), to obtain all necessary licenses, consents, approvals, authorisations, permits, exemptions, orders, reliefs or notices required for the execution and performance of the Share Subscription Agreement or the issue of the Subscription Shares, and which have not been withdrawn prior to the issue of the Subscription Shares.

None of the conditions can be waived under the Share Subscription Agreement.

As at the Latest Practicable Date, there was no such licence, consent, approval, authorisation, permit, exemption, order, relief or notice required as set out in paragraph (6), and such condition set out in paragraph (6) shall be treated as fulfilled for so long as no circumstances have arisen to trigger the relevant requirements on or before the Completion. As at the Latest Practicable Date, except for the conditions set out in paragraphs (1) and (4) above, which have been fulfilled, none of the other conditions to the Domestic Share Subscription has been or has been treated as fulfilled.

If any of the precedent conditions under the Share Subscription Agreement as set out above in the section headed "Conditions precedent to the Share Subscription Agreement" is not satisfied after eighteen months from the date of the Share Subscription Agreement, the Share Subscription Agreement shall not take effect and neither party shall have any claims against the other save for any antecedent breaches.

Completion

The completion of Domestic Share Subscription shall take place within 10 business days following all the conditions precedent to the Share Subscription Agreement have been fulfilled, upon which the Company shall issue the Subscription Shares to Bailian Group and the total Subscription Price shall be paid by Bailian Group in one lump sum to the account designated by the Company in accordance with the terms of the Share Subscription Agreement in cash.

Termination of the Share Subscription Agreement	The Share Subscription Agreement shall terminate on the date of occurrence of any of the following circumstances:

(1) The Company, based on its actual situation and relevant laws and regulations, believes that the purpose of the issuance of the Subscription Shares can no longer be achieved and takes the initiative to withdraw the application materials from the state-owned assets supervision agency or its authorised organisations, or the CSRC;

(2) The issuance of the Subscription Shares has not been approved by the Board of Directors or the general meeting of the Shareholders, the board of directors of the Subscriber, the board of directors of Shanghai Bailian, the state-owned assets supervision agency or its authorised organisations, the CSRC and/or the SFC or any of the conditions for the commencement of the Share Subscription Agreement has not been fulfilled within eighteen months from the date of the Share Subscription Agreement;

(3) Force majeure events occurring in the course of the performance of the Share Subscription Agreement and the termination of the Share Subscription Agreement by mutual consensus;

(4) Other circumstances under which the Share Subscription Agreement shall be terminated in accordance with the relevant laws of the PRC.

Specific Mandate	The 360,000,000 Subscription Shares will be issued pursuant to the Specific Mandate to be sought from the Independent Shareholders at the EGM.

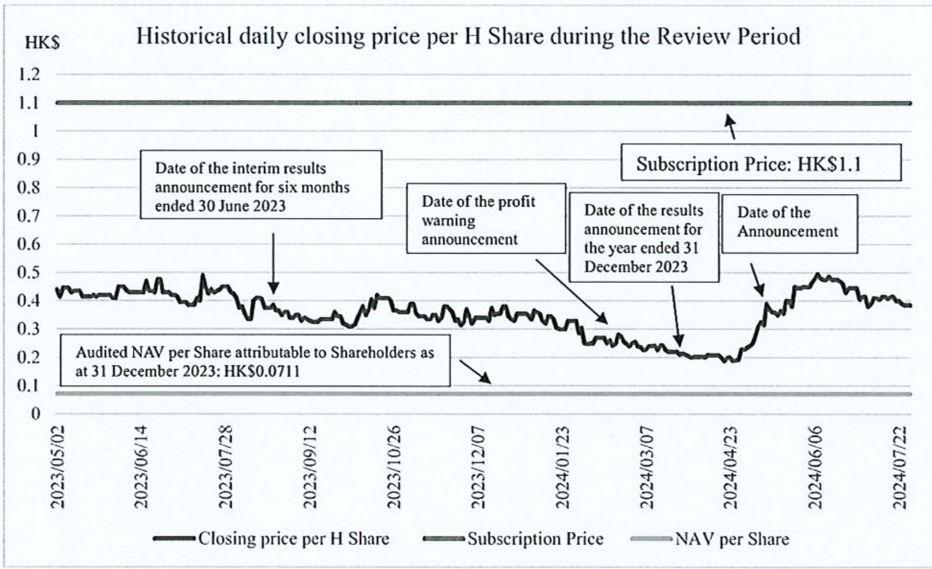
Further details of the Share Subscription Agreement are set out in Letter from the Board.

5. Analysis of the Subscription Price

For the purpose of assessing the fairness and reasonableness of the Subscription Price, we have (i) compared the Subscription Price to the historical H Share price performance; (ii) performed analysis on the liquidity of the H Shares; and (iii) performed analysis on the Comparable Issues (as defined below) as follows:

(a) Historical H Share price performance

Set out below is a chart showing the daily closing prices of the H Shares as quoted on the Stock Exchange during the period from 1 May 2023 to the Latest Practicable Date (the "**Review Period**"). We consider that the duration of the Review Period of approximately one year would be reasonable and sufficient to illustrate the relationship between the recent price movement of the closing prices of the H Shares and the Subscription Price.▲



Source: The website of the Stock Exchange (www.hkex.com.hk)

As illustrated in the chart above, the H Shares were traded below the Subscription Price during the Review Period. The lowest closing price and highest closing price of the H Shares was HK$0.188 on 19 April 2023 and HK$0.495 on 7 June 2024, respectively, during the Review Period. The average closing price of H Shares during the Review Period was approximately HK$0.355. It is noted that the H Shares exhibited a downward trend from the beginning of the Review Period to 19 April 2024, which was likely due to market reaction to the business performance of the Group. It is then noted that the H Shares exhibited an upward movement from the lowest closing price of HK$0.188 on 19 April 2024 to HK$0.495 on 7 June 2024 during the Review Period, which was likely due to market reaction to the announcement of the Domestic Share Subscription. In addition, as advised by the Managements, they were not aware of any specific reason for the price movement in concern during the Review Period.

As compared with the net assets value ("**NAV**") per Share attributable to Shareholders, the closing prices of H Shares during the Review Period had been traded above the NAV per Share. The average closing H Share price during the Review Period of approximately HK$0.355 represented a premium of approximately 399.30% to the audited NAV per Share attributable to Shareholders as at 31 December 2023 of approximately RMB0.0644 (equivalents to approximately HK$0.0711 based on the exchange rate of HK$1: RMB0.90622 as at 29 December 2023 published by The People's Bank of China).

(b) Liquidity of the H Shares

The table below sets out the monthly statistics of the average daily volume of the H Shares per month and the respective percentages of the average daily trading volume as compared to the total number of issued H Shares during the Review Period:

Month	Total trading volume of H Shares *(Shares)*	Number of trading days in the month *(days)*	Average daily trading volume of H Shares *(Shares)* *(Note 1)*	Percentage of average daily trading volume over total number of issued H Shares held by public H Shareholders % *(Note 2)*
2023				
May	585,200	21	27,867	0.0025
June	1,128,600	21	53,743	0.0048
July	7,220,200	20	361,010	0.0322
August	6,379,600	23	277,374	0.0248
September	1,694,614	19	89,190	0.008
October	3,055,600	20	152,780	0.0136
November	750,800	22	34,127	0.003
December	1,491,200	19	78,484	0.007
2024				
January	1,136,800	22	51,673	0.0046
February	6,737,400	19	354,600	0.0317
March	2,227,200	20	111,360	0.0099
April	3,101,400	20	155,070	0.0139
May	40,845,000	21	1,945,000	0.1737
June	5,320,600	19	280,032	0.0250
July (up to the Latest Practicable Date)	812,000	19	42,737	0.0038

Source: The website of the Stock Exchange (www.hkex.com.hk)

Note:

1. Average daily trading volume is calculated by dividing the total trading volume for the month/period by the number of trading days in the respective month/period.

2. The calculation is based on the average daily trading volume of H Shares divided by the total number of H Shares in issue at the end of each month/period.

As illustrated in the above table, the average daily trading volume of H Shares during the Review Period was generally low, ranging from approximately 27,867 H Shares to approximately 1,945,000 H Shares, representing 0.0025% to approximately 0.1737% of the total number of issued H Shares held by public H Shareholders as at the end of the relevant month/period. It is noted the average daily trading volume of H Shares substantially increased in May 2024, which could possibly be explained by the market reaction to the announcement of the Domestic Share Subscription. Furthermore, we were advised by the Directors that, other than the publication of the Announcement, they were not aware of any specific reasons for the liquidity movement during the Review Period. Having considered the prevailing condition of the Hong Kong stock market and the overall low liquidity of the H Shares, the Directors are of the view, and we concur, that it may be difficult for the Company to conduct other equity financing alternatives (such as rights issue or open offer) as compared to the Domestic Share Subscription in the Hong Kong market.

(c) Comparable analysis

In order to assess the fairness and reasonableness of the Subscription Price, we have carried out a comparable analysis on comparable issues of domestic shares (excluding any issuance in relation to capital reorganisation or restructuring of listed issuers) by listed issuers on the Stock Exchange (the "**Comparable Issues**") since 1 May 2023 and up to the Latest Practicable Date, being a period of approximately one year prior to and including the date of the Share Subscription Agreement. Based on the said criteria, we identified five Comparable Issues. In view of the limited sample size, for the purpose of the comparable analysis, we have extended the review period to approximately three years (i.e. from 1 January 2021 to up to the Latest Practicable Date, being a period of approximately three years prior to and including the date of the Share Subscription Agreement) (the "**Comparables Review Period**").

Based on the said criteria, we have identified an exhaustive list of nine Comparable Issues. Considering (i) the Comparables Review Period is able to illustrate the market practice regarding the issuance of domestic shares by the companies listed on the main board of Stock Exchange; and (ii) the number of Comparable Issues represents a fair and representative sample size for the present comparison purpose in light of the similarity of transaction nature, we are of the view that the coverage of the Comparables Review Period is fair and reasonable for the selection of Comparable Issues. It should be noted that the listed issuers involved in the Comparable Issues may have different principal activities, market capitalisations, financial performance and financial positions as compared to those of the Company, and that no issues of domestic shares carried out by listed companies during the Comparables Review Period are identical in all material respect (i.e. whether constituted a connected transaction and required whitewash waiver). However, in light of our selection criteria, we consider that the Comparable Issues (i) adequately cover the prevailing capital market conditions and sentiments of approximately three years prior to the Latest Practicable Date; (ii) provide a fair, sufficient and meaningful reference on general market practice conducted under a similar market conditions for comparison purpose; and (iii) allow the Independent Shareholders to assess the fairness and reasonableness of the Subscription Price with a general reference of listed issuers on the Stock Exchange.

Based on the aforesaid criteria, the Comparable Issues are summarised as follows:

Date of announcement	Stock code	Company name	Principal business	Constituted connected transaction	Applied whitewash waiver	Whether shareholders' approval is required	Premium/ (Discount) of the subscription price over/to the closing price per share on/prior to the date of the agreement *(approx. %)*	Premium/ (Discount) of the subscription price over/to the average closing price per share for the last five consecutive trading days prior to/up to and including the date of agreement *(approx. %)*	Premium/ (Discount) of the subscription price over/to the average closing price per share for the last ten consecutive trading days prior to/up to and including the date of agreement *(approx. %)*	Premium/ (Discount) of the subscription price over/to the average closing price per share for the last thirty consecutive trading days prior to/up to and including the date of agreement *(approx. %)*	Premium/ (Discount) of the subscription price over/to NAV per share as at the date of announcement *(approx. %)*	Maximum dilution effect of the subject domestic subscription agreement to the existing public shareholders *(approx. %)*
5 August 2021	1799	Xinte Energy Co., Ltd.	Provision of solar energy and wind power solutions	Yes	No	Yes	(13.79)	(11.78)	(13.31)	(5.81) (Note 1)	38.05 (Note 2)	3.47
8 December 2021	1551	Guangzhou Rural Commercial Bank Co., Ltd.	Banking and related business	No	No	Yes	139.53 (Note 1)	143.25 (Note 1)	142.27 (Note 1)	141.11 (Note 1)	(13.63) (Note 2)	2.46
21 June 2022	8189	Tianjin TEDA Biomedical Engineering Company Limited	Research and development, manufacturing and sales of biological compound fertiliser products	No	No	Yes	(16.67)	(6.25)	(6.25)	6.28 (Note 1)	130.54 (Note 2)	38.15
28 December 2022	1133	Harbin Electric Company Limited	Manufacture and sale of power equipment	Yes	No	Yes	11.00	14.72	13.20	13.98 (Note 1)	(56.99) (Note 2)	9.73 (Note 3)
9 May 2023	2357	AviChina Industry & Technology Company Limited	Research, development, manufacture and sale of civil aviation products	No	No	No	0.93	0.00	2.02 (Note 1)	3.61 (Note 1)	6.30 (Note 2)	1.13
16 June 2023	6190	Bank of Jiujiang Co., Ltd.	Banking and related business	No	No	No	5.27 (Note 1)	3.14 (Note 1)	2.88 (Note 1)	2.71 (Note 1)	(40.91) (Note 2)	2.49
29 December 2023	1551	Guangzhou Rural Commercial Bank Co., Ltd.	Banking and related business	No	No	Yes	7.73 (Note 1)	7.73 (Note 1)	11.16 (Note 1)	17.25 (Note 1)	(68.02) (Note 2)	3.73
19 January 2024	9863	Zhejiang Leapmotor Technology Co., Ltd.	Research and development, manufacturing and sales of new energy vehicles	No	No	Yes	69.77 (Note 1)	59.45 (Note 1)	49.56 (Note 1)	28.43 (Note 1)	753.96 (Note 2)	0.61 (Note 4)
8 May 2024	6990	Sichuan Kelun-Biotech Biopharmaceutical Co., Ltd.	Research and development, production, and sales of drugs	Yes	No	Yes	(6.83)	(10.19)	(7.79) (Note 1)	(1.72) (Note 1)	1,179.07 (Note 2)	N/A (Note 5)
		Maximum					139.53	143.25	142.27	141.11	1,179.07	38.15
		Minimum					(16.67)	(11.78)	(13.31)	(5.81)	(68.02)	0.61
		Average					21.88	22.23	21.53	22.87	214.23	7.72
		Median					5.27	3.14	2.88	6.28	6.03	2.98
		The Subscription					**249.37**	**273.05**	**323.27**	**396.77**	**1,452.80**	**8.10**

Notes:

1. The corresponding announcement did not disclose the relevant figures. For illustrative purposes, the figures were calculated based on public information.

2. The corresponding announcement did not disclose the relevant figures. For illustrative purposes, the net asset value per share were calculated based on the latest published financial statements available before the date of respective announcement and exchange rate as at the date of the relevant period/ year end published by The People's Bank of China.

3. According to the relevant announcement, the dilution effect to the existing public shareholders would be 9.38% or 9.73% based on different final subscription price. For illustrative purposes, the maximum of these two figures is adopted in the table above.

4. For illustrative purposes, according to the relevant announcement, the dilution effect is calculated based on the change in shareholding of respective other public shareholders upon the completion of the subscription of H shares and domestic shares.

5. The corresponding announcement did not disclose the relevant figure to public shareholders.

Source: The website of the Stock Exchange (www.hkex.com.hk)

As illustrated in the table above, the subscription price of the Comparable Issues:

(i) ranged from a discount of approximately 16.67% to a premium of approximately 139.53%, with an average of a premium of approximately 21.88% and a median of a premium of approximately 5.27% (collectively, the "**Market Data**"), to/over their respective closing prices on/prior to the date of agreement;

(ii) ranged from a discount of approximately 11.78% to a premium of approximately 143.25%, with an average of a premium of approximately 22.23% and a median of a premium of 3.14% (collectively, the "**5-Day Market Data**"), to/over their average closing prices for the five (5) consecutive trading days prior to/up to and including the date of agreement;

(iii) ranged from a discount of approximately 13.31% to a premium of approximately 142.27%, with an average of a premium of approximately 21.53% and a median of a premium of 2.88% (collectively, the "**10-Day Market Data**"), to/over their average closing prices for the ten (10) consecutive trading days prior to/up to and including the date of agreement;

(iv) ranged from a discount of approximately 5.81% to a premium of approximately 141.11%, with an average of a premium of approximately 22.87% and a median of a premium of 6.28% (the "**30-Day Market Data**"), to/over their average closing prices for the thirty (30) consecutive trading days prior to/up to and including the date of agreement; and

(v) ranged from a discount of approximately 68.02% to a premium of approximately 1,179.07% (the "**NAV Market Range**"), to/over their NAV per share.

Based on the foregoing, the Subscription Price presents (i) a premium of approximately 249.37% to the H Share closing price on the Last Trading Day; (ii) a premium of approximately 273.05% to the average H Share closing price for the last five consecutive trading days up to and including the Last Trading Day; (iii) a premium of approximately 323.27% to the average H Share closing price for the last ten consecutive trading days up to and including the Last Trading Day; (iv) a premium of approximately 396.77% to the average H Share closing price for the thirty consecutive trading days up to and including the Last Trading Day; and (v) a premium of approximately 1,452.80% to the audited consolidated NAV per Share attributable to the Shareholders as at 31 December 2023. Despite the ranges of the Comparable Issues are wide, the premiums of the Subscription Price are higher than the maximum ranges and better off than the respective Market Data, 5-Day Market Data, 10-Day Market Data, 30-Day Market Data and NAV Market Range of the Comparable Issues, which indicate that the Subscription Price is favourable from the Company's perspective.

We further noted that the maximum dilution effect to the existing public shareholders in percentage points under the Comparable Issues ranged from approximately 38.15 percentage points to 0.61 percentage points (the "**Dilution Effect Range**"), with an average and median of approximately 7.72 percentage points and 2.98 percentage points, respectively. The shareholding interests of the existing H Shareholders would be diluted by approximately 8.10 percentage points from approximately 33.28% to 25.18% upon Completion, which is within the Dilution Effect Range of the Comparable Issues.

(d) Analysis on trading multiples of comparable companies

With a view to further supplement the above analysis, we have also conducted supplemental analysis on the trading multiples of the comparable companies (the "**Market Comparables**") on the Stock Exchange to further support our findings on the fairness and reasonableness of the Subscription. In this connection, we have considered (a) the implied price-to-earnings ratio (the "**P/E Ratio**"); (b) the implied price-to-sales ratio (the "**P/S Ratio**"); and (c) the implied price-to-book ratio (the "**P/B Ratio**") of the Subscription. However, having considered the loss-making position and the non-assets intensive characteristics of the Group's business, we are of the view that the P/E Ratio and P/B Ratio would not be appropriate trading multiples in analysing the Domestic Share Subscription. Hence, we have conducted the research based the P/S Ratio, being a common valuation benchmark for loss-making companies, as part of our analysis.

In this connection, having considered the principal businesses of the Group and the geographical region operated by the Group as at the Last Trading Day, we have set the following criteria to select comparable companies for the purpose of our analysis, namely (i) shares of the companies being listed and traded on the Stock Exchange as at the date of the Share Subscription Agreement; (ii) principally engaged in operating retails store/hypermarket/supermarket in the PRC; and (iii) over 50% of total revenue was generated from retails and/or wholesale of daily consumer goods through retails store/hypermarket/supermarket in the PRC based on its latest financial report. Based on the said criteria, we have identified an exhaustive list of three Market Comparables from the Stock Exchange, details of which are set out in the following table:

Stock code	**Company Name**	**Principal business**	**Market Capitalisation** *(Note 1)* *(HK$' million)*	**P/S Ratio** *(Note 2)* *(times)*
814	Beijing Jingkelong Company Limited	Retail and wholesale of daily consumer goods through department stores, hypermarkets, supermarkets and convenience stores	152.5	0.0146
984	AEON Stores Hong Kong Co. Ltd.	Retail department store business such as shopping malls, general department stores and supermarkets	127.4	0.0147
6808	Sun Art Retail Group Ltd.	Operation of hypermarket and e-commence platforms in China	15,834.2	0.1978
		Maximum	15,834.2	0.1978
		Minimum	127.4	0.0146
		Average	5,371.4	0.0757
		Median	152.5	0.0147
		The Company	1,125.3	0.0467 *(Note 3)*

Source: The website of the Stock Exchange (www.hkex.com.hk)

Notes:

(1) For illustration purpose, the market capitalisation of the Market Comparables is calculated based on their respective closing share price as at the Last Trading Day and the total number of issued shares based on the then latest monthly return of the subject listed company published on the website of the Stock Exchange.

(2) As for the calculation of the P/S Ratio of the Market Comparables, the ratios are calculated based on (a) the market capitalisation as at the Last Trading Day; (b) the revenue based on the latest annual report available before Latest Practicable Date and exchange rate as at the date of relevant year end published by The People's Bank of China.

(3) The implied P/S of the Company is calculated based on the Subscription Price and the Group's revenue for the year ended 31 December 2023.

As shown above, the P/S Ratio of the Market Comparables ranged from approximately 0.0146 times to approximately 0.1978 times. The implied P/S Ratio of the Subscription of approximately 0.0467 times is within range of the Market Comparables. Despite the P/S Ratio range of the Market Comparables is wide, the implied P/S Ratio of the Subscription is higher than the median of the P/S Ratio of the Market Comparables.

Having considering the following factors;

(i) the Subscription Price represents a premium over the historical H Shares closing prices during the Review Period as illustrated in the paragraph headed "5 (a) Historical H Share price performance";

(ii) the H Shares traded constantly above the net asset value per Share attributable to owner of the Company during the Review Period;

(iii) the relatively low liquidity of the H Shares as discussed in the paragraph headed "5 (b) Liquidity of the H Shares" above;

(iv) the Subscription Price represented a premium of approximately 249.37% over the closing price of HK$0.315 per H Share as quoted on the Stock Exchange on 10 May 2024, being the Last Trading Day, which is higher than the Market Data of the Comparable Issues;

(v) the Subscription Price represented a premium of approximately 273.05% over the average closing price of the last five trading days up to and including the Last Trading Day, which is higher than the 5-Day Market Data of the Comparable Issues;

(vi) the Subscription Price represented a premium of approximately 323.27% over the average closing price of the last ten trading days up to and including the Last Trading Day, which is higher than the 10-Day Market Data of the Comparable Issues;

(vii) the Subscription Price represented a premium of approximately 396.77% over the average closing price of the last thirty trading days up to and including the Last Trading Day, which is higher than that of the Comparable Issues;

(viii) the premium of approximately 1452.80% of the Subscription Price over the net asset value per Share is higher than the market range on NAV of the Comparable Issues; and

(ix) the implied P/S Ratio of the Domestic Share Subscription is within the range of the Market Comparables and higher than the median P/S Ratio of the Market Comparable,

we are of the view that the Subscription Price is fair and reasonable so far as the Independent Shareholders are concerned.

6. Financial effects of the Subscription on the Group

(i) Working capital

According to the 2023 Annual Report, the Group had cash and cash equivalents as at 31 December 2023 of approximately RMB2,447.6 million. Upon Completion, the cash position of the Group would be increased by the amount of net proceeds of approximately RMB357 million (equivalent to approximately HK$393 million).

(ii) Net asset value

According to the 2023 Annual Report, the net assets of the Group was approximately RMB448.3 million as at 31 December 2023. Upon Completion, the net assets of the Group would be increased by the amount of net proceeds of approximately RMB357 million (equivalent to approximately HK$393 million).

In light of the foregoing financial effects of the Domestic Share Subscription on the working capital and net asset value of the Group, we are of the view that the Domestic Share Subscription would have positive impact of the Group's financial position.

Shareholders are reminded that the above analysis is for illustrative purposes only and does not purport to represent how the financial position of the Group would be upon completion of the Domestic Share Subscription.

7. Potential dilution effect of the Domestic Shares Subscription

As illustrated under the section headed "3. Effects on the Shareholding Structure of the Company" of the Letter from the Board, the shareholding interests of the existing H Shareholders would be diluted by approximately 8.10 percentage points from approximately 33.28% to 25.18% upon Completion. Having considered (i) the benefits to be derived by the Group from the Domestic Share Subscription as set out in the section headed "3. Use of proceeds and reasons for the Domestic Share Subscription" above in this letter; (ii) the Subscription Price represents significant premiums over the closing price of H Shares on the Last Trading Day, the 5-Day Market Data, the 10-Day Market Data and the 30-Day Market Data as discussed under the section headed "5 (c) Comparable analysis" in this letter above; and (iii) the terms of the Share Subscription Agreement (including the Subscription Price) being fair and reasonable so far as the Independent Shareholders are concerned, we are of the opinion that the potential dilution effect on the shareholding interests of the existing H Shareholders is acceptable.

8. The Whitewash Waiver

As at the Latest Practicable Date, Bailian Group and its subsidiary, Shanghai Bailian, directly hold 289,661,400 Domestic Shares and 224,208,000 Domestic Shares, representing approximately 25.87% and approximately 20.03% of the Company's total issued share capital, respectively, pursuant to which, Bailian Group, Shanghai Bailian and parties acting in concert with any of them under the Takeovers Code collectively hold an aggregate of 513,869,400 Domestic Shares, representing approximately 45.90% of the Company's total issued share capital. In addition, according to the Equity Entrustment Agreement, Bailian Group entrusted the management of 254,160,000 Domestic Shares held by it to Shanghai Bailian, representing approximately 22.70% of the total issued share capital of the Company, and Shanghai Bailian shall exercise the Shareholder's rights of the entrusted Domestic Shares, except for the assets earning right and the disposal right, in accordance with the Articles of Association.

After completion of the Domestic Share Subscription and assuming no other changes to the issued share capital of the Company prior to Completion, Bailian Group, Shanghai Bailian and parties acting in concert with any of them under the Takeovers Code will together be interested in a total of 873,869,400 Domestic Shares, representing approximately 59.06% of the Company's enlarged issued share capital. As the Domestic Share Subscription will cause an increase in the shareholding of Bailian Group, Shanghai Bailian and parties acting in concert with any of them under the Takeovers Code in aggregate from approximately 45.90% to approximately 59.06%, pursuant to Rule 26.1 of the Takeovers Code, the issue of Subscription Shares to Bailian Group will give rise to an obligation on part of Bailian Group and Shanghai Bailian to make a mandatory general offer for all the securities of the Company not already owned or agreed to be acquired by Bailian Group, Shanghai Bailian and parties acting in concert with any of them unless the Whitewash Waiver is obtained from the Executive.

On 6 June 2024, an application was made on behalf of Bailian Group and Shanghai Bailian to the Executive for the granting of the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Executive has indicated that it is minded to grant the Whitewash Waiver, subject to approval by at least 75% on the Whitewash Waiver and more than 50% on the Domestic Share Subscription (including the Share Subscription Agreement and the transactions contemplated thereunder, and the Specific Mandate) of independent votes by Independent Shareholders in accordance with Note 1 on dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver will be proposed by way of resolution to be passed by at least 75%, and the Domestic Share Subscription (including the Share Subscription Agreement and the transactions contemplated thereunder, and the Specific Mandate) will be proposed by way of resolution(s) to be passed by more than two-third, in each case of the vote that are cast either in person or by proxy at the EGM. The Domestic Share Subscription will not proceed if the Whitewash Waiver is not granted by the Executive or not approved.

Given the possible benefits of the Domestic Share Subscription mentioned in the section headed "3. Use of proceeds and reasons for the Domestic Share Subscription" above in this letter and the terms of the Share Subscription Agreement being fair and reasonable so far as the Independent Shareholders are concerned, we are of the opinion that the approval for the Whitewash Waiver, which is a prerequisite of the Domestic Share Subscription, is in the interests of the Company and the Shareholders as a whole and is fair and reasonable for the purpose of proceeding with the Domestic Share Subscription.

RECOMMENDATIONS

Having considered the above principal factors and reasons, in particular:

(i) the reasons and benefits of the Domestic Share Subscription as aforementioned;

(ii) the intended usage of net proceeds from the Domestic Share Subscription as aforementioned;

(iii) the Domestic Share Subscription is comparatively a more appropriate and viable means of fundraising under the current circumstances of the Group;

(iv) the terms of the Share Subscription Agreement (including the Subscription Price) are fair and reasonable;

(v) the Domestic Share Subscription would have positive impact to the Group's financial position; and

(vi) the dilution effect of the Domestic Share Subscription on the shareholding interests of the H Shareholders is acceptable,

we are of the view that the Domestic Share Subscription and the entering into of the Share Subscription Agreement is in the interests of the Company and the Shareholders as a whole. Although entering into the Share Subscription Agreement is not in the ordinary and usual course of business of the Company, the terms of the Domestic Share Subscription (including the Share Subscription Agreement and transactions contemplated thereunder, and the Specific Mandate) are on normal commercial terms, and fair and reasonable so far as the Independent Shareholders are concerned.

Accordingly, we advise the Independent Board Committees to advise the Independent Shareholders, and recommend the Independent Shareholders, to vote in favour of the relevant resolutions to be proposed at the EGM to approve (i) the Domestic Share Subscription (including the Share Subscription Agreement and transactions contemplated thereunder, and the Specific Mandate); and (ii) the Whitewash Waiver.

Yours faithfully,
For and on behalf of
Lego Corporate Finance Limited

Kristie Ho
Managing Director

Ms. Kristie Ho is a licensed person registered with the Securities and Futures Commission and a responsible officer of Lego Corporate Finance Limited to carry out Type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong). She has over 20 years of experience in the securities and investment banking industries.

* *For identification purposes only*