



红日资本有限公司
RED SUN CAPITAL LIMITED

5 November 2021

To: The Independent Board Committee of Hifood Group Holdings Co., Limited

Dear Sir/Madam,

**MANDATORY UNCONDITIONAL CASH OFFER
BY SOMERLEY CAPITAL LIMITED
FOR AND ON BEHALF OF PERFECT GAIN GROUP LIMITED
TO ACQUIRE ALL ISSUED SHARES OF
HIFOOD GROUP HOLDINGS CO., LIMITED
(OTHER THAN THOSE ALREADY OWNED OR AGREED
TO BE ACQUIRED BY PERFECT GAIN GROUP LIMITED
AND PARTIES ACTING IN CONCERT WITH IT)**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee in respect of the Offer, details of which are set out in the Composite Document dated 5 November 2021, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Composite Document unless the context otherwise requires.

On 26 September 2021, the Offeror (as purchaser) and the Joint Receivers (as receivers) entered into the Sale and Purchase Agreement, pursuant to which the Purchaser has conditionally agreed to acquire, and the Joint Receivers have (as receiver exercising their power pursuant to the Deed of Appointment of Receivers) conditionally agreed to sell, the Sale Shares, being 129,372,494 Shares (representing approximately 74.96% of the entire issued share capital of the Company as at the Latest Practicable Date). The Consideration is HK\$200,000,000, equivalent to approximately HK\$1.546 per Sale Share.

Immediately prior to Completion, none of the Purchaser, its ultimate beneficial owner and their respective parties acting in concert owned any Shares or any other convertible securities, options, warrants or derivatives in the Company. Immediately following Completion, the Purchaser, its ultimate beneficial owner and their respective parties acting in concert own 129,372,494 Shares (representing approximately 74.96% of the entire issued share capital of the Company as at the Latest Practicable Date). Completion took place on 30 September 2021.

The Purchaser (i.e. the Offeror) is therefore required under Rule 26.1 of the Takeovers Code to make a mandatory unconditional general offer in cash for all issued Shares other than those already owned or agreed to be acquired by the Offeror and its parties acting in concert.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising the non-executive Director, namely Ms. Mary Ang Mei Lee, and all independent non-executive Directors, namely Mr. Ting Tit Cheung, Mr. Chan Chi Kuen, Mr. Lo Chun Pong, Mr. Yau Pak Yue, Mr. Chung Wai Man and Mr. Ning Rui has been established to make recommendations to the Independent Shareholders as to whether the Offer is fair and reasonable and as to the acceptance of the Offer pursuant to Rule 2.1 of the Takeovers Code. Meanwhile, Mr. Tom Xie is not included as a member of the Independent Board Committee in view of his proposed re-designation from the position of non-executive Director to the position of executive Director with effect from a date no earlier than the date of the Composite Document or a date as permitted under the Takeovers Code.

We, Red Sun, have been appointed by the Company as the independent financial adviser to advise the Independent Board Committee in respect of the Offer and in particular as to whether the Offer is, or is not, fair and reasonable and as to its acceptance. Pursuant to Rule 2.1 of the Takeovers Code, our appointment has been approved by the Independent Board Committee. Our role as the independent financial adviser is to give our recommendation to the Independent Board Committee as to (i) whether the terms of the Offer are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) whether the Independent Shareholders should, or should not, accept the Offer.

OUR INDEPENDENCE

As at the Latest Practicable Date, we were independent from and not connected with the Company, the Vendor, the Offeror and any of their respective associates, or any party acting, or presumed to be acting, in concert with any of them and accordingly, are qualified to give independent advice to the Independent Board Committee in respect of the Offer. In the previous two years, we did not act as an independent financial adviser to the Company under the Listing Rules or Takeovers Code. Apart from normal professional fees paid or payable to us in connection with the current appointment as the Independent Financial Adviser, no arrangements exist whereby we had received or will receive any fees or benefits from Company.

BASIS OF OUR OPINION AND RECOMMENDATION

In formulating our opinion, we have relied on the statements, information, opinions and representations contained in the Composite Document and the information and representations provide to us by the Offeror, the directors of the Company (the “**Directors**”) and the management of the Company (the “**Management**”). We have assumed that all statements, information and representations provided by the Offeror, the Directors and the Management, for which they are solely responsible respectively, were true and accurate at the time when they were provided and continue to be so as at the Latest Practicable Date and the Shareholders will be notified of any material changes to such information and representations as soon as possible in accordance with Rule 9.1 of the Takeovers Code.

We have also assumed that all statements of belief, opinion and expectation made by the Offeror and the Directors in the Composite Document 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 Composite Document, or the reasonableness of the opinions expressed by the Offeror, the Company, its advisers, the Management and/or the Directors. We believe 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, carried out any independent verification of the information provided by the Offeror, the Directors and the Management, nor have we conducted an independent investigation into the business and affairs of the Company, the Vendor, the Offeror and their respective shareholder(s) and subsidiaries or affiliates, and their respective histories, experience and track records, or the prospects of the markets in which they respectively operate. Our opinion is necessarily based on financial, economic, market and other conditions in effect and the information made available to us at the Latest Practicable Date. This letter is issued for the information of the Independent Board Committee and the Independent Shareholders solely for their consideration of the Offer.

The sole director of the Offeror accepts full responsibility for the accuracy of the information contained in the Composite Document (other than the information relating to the Group, the Directors, the Vendor, the Joint Receivers (who accept full responsibility for the information of or relating to themselves) and Option Best), and confirms, having made all reasonable enquiries, that to the best of his knowledge, opinions expressed in the Composite Document (other than those expressed by the Directors and the Joint Receivers (who accept full responsibility for the opinions expressed by themselves)) have been arrived at after due and careful consideration and there are no other facts not contained in the Composite Document, the omission of which would make any statement contained in the Composite Document misleading.

The Joint Receivers accept full responsibility for the accuracy of the information relating to themselves contained in the Composite Document and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed by themselves in the Composite Document have been arrived at after due and careful consideration and there are no other facts relating to the Joint Receivers not contained in the Composite Document, the omission of which would make any statement contained in the Composite Document misleading.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Composite Document (other than the information relating to the Joint Receivers (who accept full responsibility for the information of or relating to themselves), the Purchaser, the Offeror, the sole director of the Offeror and the nominee Director of the Offeror and the Joint Receivers (who accept full responsibility for the opinions expressed by themselves)) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed (other than those expressed by the sole director of the Offeror) in the Composite Document have been arrived at after due and careful consideration and there are no other facts not contained in the Composite Document, the omission of which would make any statements in the Composite Document misleading.

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

This letter is issued for the information of the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Offer, and except for its inclusion in the Composite Document, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

PRINCIPAL TERMS OF THE OFFER

Somerley is making the Offer, which is unconditional, in all respect, for and on behalf of the Offeror, in compliance with the Takeovers Code on the following terms:

For every Share HK\$1.546 in cash

The Offer Price of HK\$1.546 per Offer Share under the Offer is equal to the purchase price per Sale Share paid by the Offeror under the Sales and Purchase Agreement.

The Offer is unconditional in all respects.

As set out in the "Letter from Somerley" to the Composite Document, the Offer Price of HK\$1.546 per Offer Share paid by the Offeror pursuant to the Sales and Purchase Agreement and represents:

- (a) a discount of approximately 15.05% to the closing price of HK\$1.82 per Share as quoted on the Stock Exchange as at the Latest Practicable Date;
- (b) a discount of approximately 22.70% to the closing price of HK\$2.00 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (c) a discount of approximately 10.12% to the average of the closing prices of Shares as quoted on the Stock Exchange for the 5 consecutive trading days up to and including the Last Trading Day of approximately HK\$1.720 per Share;
- (d) a discount of approximately 5.04% to the average of the closing prices of Shares as quoted on the Stock Exchange for the 10 consecutive trading days up to and including the Last Trading Day of approximately HK\$1.628 per Share;
- (e) a premium of approximately 18.47% over the average of the closing prices of Shares as quoted on the Stock Exchange for the 30 consecutive trading days up to and including the Last Trading Day of approximately HK\$1.305 per Share;
- (f) a premium of approximately 68.04% over the average of the closing prices of the Shares as quoted on the Stock Exchange for the 90 consecutive trading days up to and including the Last Trading Day of approximately HK\$0.920 per Share;

- (g) a premium of approximately 77.29% over the average of the closing prices of the Shares as quoted on the Stock Exchange for the 180 consecutive trading days up to and including the Last Trading Day of approximately HK\$0.872 per Share; and
- (h) a premium of approximately 29.92% over the Group's audited consolidated net asset value attributable to the Shareholders per Share of approximately HK\$1.19 per Share as at 31 March 2021, calculated based on the Group's audited consolidated net asset value attributable to the owners of the Company of approximately HK\$205,333,000 as at 31 March 2021 and 172,600,000 Shares in issue as at the Latest Practicable Date.

PRINCIPAL FACTORS AND REASONS CONSIDERED

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

1. Background and outlook of the Group

(a) Background and historical financial information of the Group

The Group is principally involved in the manufacture and sale of jewellery products, trading of precious metals and other raw jewellery materials and luxury watches.

Set out below is the summary of the Group's audited consolidated statement of income and consolidated balance sheet for the three years ended 31 March 2019, 2020 and 2021 as extracted from the annual report of the Group for the year ended 31 March 2020 (the "2020 Annual Report") and the annual report of the Group for the year ended 31 March 2021 (the "2021 Annual Report").

Table 1: Consolidated income statement of the Group

| | For the year ended 31 March | | |
|--|-----------------------------|----------------|----------------|
| | 2021 | 2020 | 2019 |
| | HK\$'000 | HK\$'000 | HK\$'000 |
| | (audited) | (audited) | (audited) |
| Revenue recognised at a point in time | 162,644 | 154,038 | 218,897 |
| — Sales of jewellery products | 146,981 | 46,867 | 184,232 |
| — Sales of luxury watches | 9,727 | 5,682 | — |
| — Sales of precious metals and other raw jewellery materials | 5,936 | 101,489 | 34,665 |
| Revenue recognised over time | — | — | 389 |
| — Service revenue (i.e. processing services) | — | — | 389 |

| | For the year ended 31 March | | |
|---|------------------------------------|------------------------------|------------------------------|
| | 2021 | 2020 | 2019 |
| | <i>HK\$'000</i> (audited) | <i>HK\$'000</i> (audited) | <i>HK\$'000</i> (audited) |
| Gross profit | 7,019 | 8,885 | 27,447 |
| Loss before tax | (74,672) | (67,336) | (15,443) |
| Loss for the year attributable to owners of the Company | (74,998) | (67,694) | (17,136) |

Financial results for the year ended 31 March 2021 ("FY2021") compared to the year ended 31 March 2020 ("FY2020")

As set out in Table 1 above, the Group recorded revenue of approximately HK\$162.6 million for FY2021, representing an increase of approximately 5.6% as compared to the revenue of approximately HK\$154.0 million recorded for FY2020. As set out in the 2021 Annual Report, such increase was primarily due to the net effect of (i) a significant increase in sales in the Americas of approximately HK\$67.5 million; (ii) increase in sales in Europe (including Russia) of approximately HK\$31.1 million; and (iii) a decrease in sales in Hong Kong of approximately HK\$87.1 million.

The Group recorded an increase of approximately HK\$12.3 million in loss attributable to owners of the Company from approximately HK\$67.7 million for FY2020 to approximately HK\$80.0 million for FY2021. Such increase was mainly due to combined effect of (i) the decrease in gross profit of approximately HK\$1.9 million as a result of the decrease in gross profit margin from approximately 5.8% for FY2020 to approximately 4.3% for FY2021; and (ii) the increase in fair value losses on financial assets at fair value through profit or loss, which was related to certain Hong Kong listed equity securities and life insurance policy held by the Group, of approximately HK\$10.9 million.

Financial results for the year ended 31 March 2020 (i.e. FY2020) compared to the year ended 31 March 2019 ("FY2019")

As set out in Table 1 above, the Group recorded revenue of approximately HK\$154.0 million for FY2020, representing a decrease of approximately 29.8% as compared to revenue of approximately HK\$219.3 million recorded for FY2019. As set out in the 2020 Annual Report, such decrease was primarily due to the net effect of (i) a decrease in sales in Europe (including Russia) of approximately HK\$60.2 million; (ii) a decrease in sales in Mainland China of approximately HK\$61.1 million; and (iii) an increase in sales in Hong Kong of approximately HK\$56.6 million.

The Group recorded an increase in loss attributable to owners of the Company from approximately HK\$17.1 million for FY2019 to approximately HK\$67.7 million for FY2020. Such increase was mainly due to (i) the decrease

in gross profit of approximately HK\$18.5 million as a result of the decrease in revenue and the decrease in gross profit margin from approximately 12.5% for FY2019 to approximately 5.8% for FY2020; and (ii) fair value losses on financial assets at fair value through profit or loss of approximately HK\$45.3 million was recognised in FY2020 compared to the fair value gains in financial assets at fair value through profit or loss of approximately HK\$0.5 million recognised in FY2019.

In addition to the above financial information of the Group, as set out in the 2020 Annual Report, it is also noted that the Group has recorded losses attributable to its equity holders for each of the past five financial years since 2017, which ranged from approximately HK\$9.2 million for the year ended 31 March 2017 to approximately HK\$75.0 million for the year ended 31 March 2021.

Table 2: Consolidated statement of financial position of the Group

| | As at 31 March | | |
|---|-------------------------------|-------------------------------|-------------------------------|
| | 2021 HK\$'000 (audited) | 2020 HK\$'000 (audited) | 2019 HK\$'000 (audited) |
| <i>Non-current assets</i> | 116,065 | 22,555 | 20,674 |
| <i>Current assets</i> | 112,441 | 286,912 | 357,195 |
| — Inventories | 21,437 | 18,664 | 31,088 |
| — Trade receivables | 51,137 | 78,910 | 51,569 |
| — Prepayments, deposits and other receivables | 2,654 | 9,222 | 3,730 |
| — Financial assets at fair value through profit or loss | — | 152,201 | — |
| — Cash and bank balances | 37,213 | 27,915 | 270,808 |
| <i>Non-current liabilities</i> | 804 | 1,113 | — |
| <i>Current liabilities</i> | 22,369 | 30,048 | 30,358 |
| — Trade and other payables and accruals | 21,601 | 19,725 | 28,515 |
| — Contract liabilities | — | — | 1,598 |
| — Borrowings | — | 9,924 | — |
| — Lease liabilities | 180 | 254 | — |
| — Tax payables | 588 | 145 | 245 |
| <i>Net current assets</i> | 90,072 | 256,864 | 326,837 |
| <i>Equity attributable to the owners of the Company</i> | 205,333 | 278,306 | 347,511 |

Comparison of financial position as at 31 March 2021 and 31 March 2020

As set out in Table 2 above, the Group recorded a decrease in the net current assets, the composition of which is set out in the table above, of approximately HK\$166.8 million from approximately HK\$256.9 million as at 31 March 2019 to approximately HK\$90.1 million as at 31 March 2020, which was largely attributable to the decrease in the current assets balance. The Group's current asset decreased from approximately HK\$286.9 million as at 31 March 2020 to approximately HK\$112.4 million as at 31 March 2021, such movement was primarily attributable to the reclassification of the Hong Kong listed equity securities from current assets to non-current assets during FY2021 where the relevant assets were recorded under "financial assets at fair value through profit or loss" as at 31 March 2020.

The Group recorded equity attributable to owners of the Company of approximately HK\$205.3 million, representing a decrease of approximately HK\$73.0 million as compared to that of approximately HK\$278.3 million recorded as at 31 March 2020. Such decrease was mainly attributable to the net effect of the operating loss of approximately HK\$18.7 million during FY2021 and the fair value losses of the Hong Kong listed equity securities of approximately HK\$56.7 million during FY2021.

Comparison of financial position as at 31 March 2020 and 31 March 2019

As set out in Table 2 above, as at 31 March 2020, the Group recorded a decrease in the net current assets of approximately HK\$69.9 million from approximately HK\$326.8 million as at 31 March 2019 to approximately HK\$256.9 million as at 31 March 2020. Such movement was largely attributable to the decrease in the Group's current assets from approximately HK\$357.2 million as at 31 March 2019 to approximately HK\$286.9 million as at 31 March 2020, which was mainly due to the decrease in cash and bank balances of approximately HK\$242.9 million, in which approximately HK\$198.1 million was utilised in the acquisition of financial assets at fair value through profit or loss during the year, and partially offset by (i) the increase in financial assets at fair value through profit or loss of approximately HK\$152.2 million; and (ii) the increase in trade receivables of approximately HK\$27.3 million.

The Group recorded equity attributable to owners of the Company of approximately HK\$347.5 million and HK\$278.3 million as at 31 March 2019 and 31 March 2020, respectively. Such decrease was mainly attributable to loss attributable to owners of the Company recognised for the year ended 31 March 2020 of approximately HK\$67.7 million.

(b) Outlook of the major geographical markets of the Group

The outbreak of COVID-19 (the “**Outbreak**”) and the corresponding containment measures implemented by the respective governments had caused disruptions to economic activities temporarily on a global scale since early 2020, albeit to a different degree depending on the region and country. The implementation of vaccination programmes worldwide is expected to contribute positively in the containment of the Outbreak, which should in turn support the economic recovery over time.

As set out in the 2021 Annual Report, the Group’s largest two geographical segments by revenue from external customers were Americas and Europe (including Russia), which accounted for approximately 49.0% and 29.9% of the total revenue of the Group for FY2021, respectively. Although revenue from Hong Kong customers only accounted for approximately 9.9% of the total revenue of the Group for FY2021, revenue from Hong Kong customers accounted for approximately 66.9% of the total revenue of the Group for FY2020. In this connection, we have set out a high level overview of the outlook of the aforesaid geographical markets of the Group.

Americas

As advised by the Management, the Group’s revenue from its Americas geographic segment was primarily related to the United States of America (the “**U.S.**”) during FY2021. The U.S. economy was adversely affected by the impact of the Outbreak during 2020. With a view to support the recovery of the U.S. economy, the U.S. government introduced a number of policies and measures, including stimulus payments, quantitative easing policies and low interest rate monetary policy. The availability of the COVID-19 vaccines also contributed notably in the overall management of the Outbreak, which has supported the U.S. economy recovery.

According to the U.S. Bureau of Economic Analysis (the “**BEA**”) (<https://www.bea.gov/>), the gross domestic product (the “**GDP**”) of the U.S. increased at an annual rate of approximately 6.6% in the second quarter of 2021, reflecting the continued economic recovery, reopening of establishments, and continued government response related to the Outbreak.

Europe (including Russia)

According to the document titled “GDP main aggregates and employment estimates for the second quarter of 2021” published by the Eurostat, the statistical office of the European Union, dated 7 September 2021, in the second quarter of 2021, seasonally adjusted GDP increased by approximately 2.2% in the euro area and by approximately 2.1% in the European Union compared with the previous quarter. In addition, during the second quarter of 2021, household final consumption expenditure increased by approximately 3.7% in the euro area and by approximately 3.5% in the European Union. Exports increased by approximately 2.2% in the euro area and by approximately 1.8% in the European Union and imports increased by approximately 2.3% in the euro area and by approximately 2.2% in the European Union. The aforesaid data indicated that both the euro area and the European Union are in the process of economic recovery.

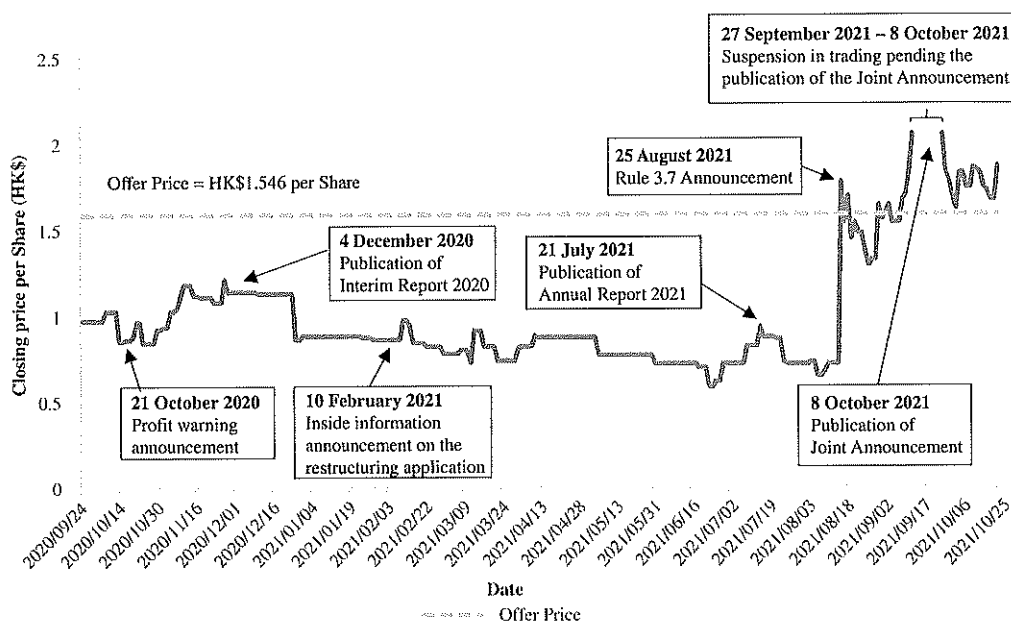
Hong Kong

The overall economy of Hong Kong, which has been adversely affected by the Outbreak during 2020, has showed signs of recovery, such as the increase in GDP. According to the “Half-yearly Economic Report 2021” published by the Government of the Hong Kong in August 2021, the Hong Kong economy remained on track for recovery in the second quarter of 2021 alongside the improving global economic conditions and receding local epidemic. In the second quarter of 2021, real GDP (i.e. an inflation-adjusted GDP) increased notably by approximately 7.6% against a low base of comparison a year earlier, having expanded by approximately 8.0% in the preceding quarter.

In summary, despite the increasing vaccination rate in various regions and countries, certain parts of the U.S. and Europe have experienced resurgence of COVID-19 cases, which may continue to cause temporary adverse effects on their respective domestic economy recovery. In this connection, the rate and level of economic recovery of these geographical markets will, to a large extent, continue to be affected by the development of the Outbreak and the related containment measures.

2. Historical Share price performance

With a view to assess the fairness and reasonableness of the Offer, we have reviewed and analysed the closing prices of Shares (i) for approximately 12 months immediately prior to the Last Trading Day commencing on 24 September 2020 and up to and including the Last Trading Day (the “**First Review Period**”); and (ii) from the day immediately following the date of the Joint Announcement up to and including the Latest Practicable Date (the “**Second Review Period**” together with the First Review Period, the “**Review Period**”), details of which are set out below:



Source: website of the Stock Exchange (<http://www.hkex.com.hk>)

The Offer Price of HK\$1.546 represents (i) a premium of approximately 61.04% over the average closing Share price of approximately HK\$0.96 per Share for the Review Period; (ii) a discount of approximately 22.70% to the closing price of HK\$2.00 per Share as quoted on the Stock Exchange on the Last Trading Day; and (iii) a discount of approximately 15.05% to the closing price of HK\$1.82 per Share as quoted on the Stock Exchange as at the Latest Practicable Date.

First Review Period

During the First Review Period, the closing price of Shares fluctuated between the range from HK\$0.57 (30 June 2021 and 2 July 2021) to HK\$2.00 (24 September 2021), with an average of approximately HK\$0.91 per Share. It is noted that the Offer Price of HK\$1.546 per Share is above the daily closing prices per Share during the First Review Period for 238 trading days out of 247 trading days and represents (i) a discount of approximately 22.70% to the highest closing price of Shares of HK\$2.0 per Share; (ii) a premium of approximately 171.23% over the lowest closing price of Shares of HK\$0.57 per Share; and (iii) a premium of approximately 70.12% over the average daily closing price of Shares of approximately HK\$0.91 per Share during the First Review Period. From August 2021 to the Last Trading Day, the closing price of Shares experienced a general upward trend to the highest closing price of Shares of HK\$2.0 per Share as at the Last Trading Day. We have discussed with the Management and the Management confirmed that they were not aware of any material matters at the relevant time which might have impacted the Share price.

Notwithstanding that the Offer Price of HK\$1.546 per Share represents a discount of approximately 22.70% to the closing price of HK\$2.00 per Share as quoted on the Stock Exchange on the Last Trading Day, it is noted that (i) for the 30 trading days up to and including the Last Trading Day, the average daily closing price per Share was approximately HK\$1.305 (the “**30-Day Average**”), of which the Offer Price of HK\$1.546 per Share represents a premium of approximately 18.44%; (ii) for the 60 trading days up to and including the Last Trading Day, the average daily closing price per Share was HK\$1.022 (the “**60-Day Average**”), of which the Offer Price of HK\$1.546 per Share represents a premium of approximately 51.22%; and (iii) for the 90 trading days up to and including the Last Trading Day, the average daily closing price per Share was HK\$0.920 (the “**90-Day Average**”), of which the Offer Price of HK\$1.546 per Share represents a premium of approximately 68.04%.

Second Review Period

Following the publication of the Joint Announcement on 8 October 2021, the closing price per Share decreased from HK\$2.0 on the Last Trading Day to HK\$1.79 on the trading day immediately after the publication of the Joint Announcement, representing a decrease of approximately 10.5%. We have enquired into the possible reasons attributed to the decrease in closing price of Shares subsequently after the publication of the Joint Announcement and as confirmed by the Directors, save for the information as set out in the Joint Announcement, the Directors were not aware

of any matters which might have had a material effect on the price of Shares. Shareholders should note there is no assurance that the closing price of Shares will continue to maintain at a level equal to or above the Offer Price after the Latest Practicable Date and/or after the close of the Offer.

During the Second Review Period, the closing price per Share ranged from HK\$1.58 to HK\$1.82 with an average closing price per Share of approximately HK\$1.72. The closing price per Share as at the Latest Practicable Date was HK\$1.82. The Offer Price represents (i) a discount of approximately 11.90% to the average daily closing price of Shares during the Second Review Period; and (ii) a discount of approximately 15.05% to the closing price of Shares as at the Latest Practicable Date.

Shareholders should note that the information set out above is not an indicator of the future performance of Shares and that the price of Shares in the future may increase or decrease from its closing price as at the Latest Practicable Date.

3. Liquidity of Shares

The table below sets out the trading volume of Shares during the Review Period:

| | Total monthly trading volume of Shares (Shares) | Number of trading days | Number of trading days with no trading | Average daily trading volume of Shares (approximate Shares) | Percentage of average daily trading volume to total number of Shares in issue as at the Latest Practicable Date (Note 4) | Percentage of average daily trading volume to total number of Shares held by the Independent Shareholders (or public shareholders of the Company) as at the Latest Practicable Date (Note 5) |
|--|--|------------------------------|---|---|--|--|
| 2020 | | | | | | |
| September (commenced from 25 September) | — | 5 | 5 | — | 0.00% | 0.00% |
| October | 99,000 | 18 | 11 | 5,500 | <0.01% (Note 6) | 0.01% |
| November | 280,000 | 21 | 9 | 13,333 | 0.01% | 0.03% |
| December | 28,000 | 22 | 18 | 1,273 | 0.00% | <0.01% (Note 6) |
| 2021 | | | | | | |
| January | 112,000 | 20 | 17 | 5,600 | <0.01% (Note 6) | 0.01% |
| February | 155,000 | 18 | 11 | 8,611 | <0.01% (Note 6) | 0.02% |
| March | 157,000 | 23 | 15 | 6,826 | <0.01% (Note 6) | 0.02% |
| April | 13,000 | 19 | 16 | 684 | <0.01% (Note 6) | <0.01% (Note 6) |
| May | 33,000 | 20 | 17 | 1,650 | <0.01% (Note 6) | <0.01% (Note 6) |
| June | 62,000 | 21 | 17 | 2,952 | <0.01% (Note 6) | 0.01% |
| July | 103,000 | 21 | 16 | 4,905 | <0.01% (Note 6) | 0.01% |
| August | 10,840,000 | 22 | 7 | 492,727 | 0.29% | 1.14% |
| September (Note 1) | 4,889,000 | 17 | 1 | 287,588 | 0.17% | 0.67% |
| October (Note 2) | 4,175,000 | 13 | 0 | 321,154 | 0.19% | 0.74% |
| November (Note 3) | 695,000 | 3 | 1 | 231,667 | 0.13% | 0.54% |
| First Review Period | 16,771,000 | 247 | 155 | 67,899 | 0.04% | 0.12% |
| Second Review Period | 4,870,000 | 16 | 1 | 304,375 | 0.18% | 0.70% |

Source: website of the Stock Exchange (<http://www.hkex.com.hk>)

Note 1: Represent information from 1 September 2021 and up to 24 September 2021, being the Last Trading Day, as part of First Review Period. For information purposes, the trading of Shares was suspended from 27 September 2020 and trading was resumed after the publication of the Joint Announcement.

Note 2: Represent information from 11 October 2021, being the trading day immediately following the Last Trading Day, and up to 29 October 2021 as part of the Second Review Period.

Note 3: Up to the Latest Practicable Date, being 3 November 2021, as part of the Second Review Period.

Note 4: Based on number of issued Shares as at the Latest Practicable Date.

Note 5: Based on 43,197,506 shares held by the Independent Shareholders as at the Latest Practicable Date.

Note 6: Represent less than 0.01%.

As set out in the table above, the average daily trading volume of Shares during the First Review Period ranged from less than 1,000 Shares (April 2021) to approximately 493,000 Shares (August 2021), representing (i) less than 0.01% to approximately 0.29% of the total number of Shares in issue as at the Latest Practicable Date; and (ii) less than 0.01% to approximately 1.14% of the total number of Shares held by Independent Shareholders as at the Latest Practicable Date. The average daily trading volume of Shares during the First Review Period of approximately 67,900 Shares was generally thin and not active, it is also noted that, during the First Review Period, there was a notable number of trading days without any trading of Shares based on published information.

The average daily trading volume of Shares during the Second Review Period of approximately 304,375 Shares, being significantly higher than that of the First Review Period, which may be attributable to the market reaction in response to the publication of the Joint Announcement as it was noted that the daily trading volume of the Shares on 11 October 2021, being the trading day immediately following the date of the Joint Announcement, amounted to 1,465,000 Shares, being over 20 times of the average daily trading volume during the First Review Period and may or may not be sustainable beyond the Offer Period.

Given the thin historical average daily trading volume of Shares, in particular, during the First Review Period, it is uncertain on whether the liquidity of Shares recorded during the Second Review Period could be maintained and that there would be sufficient liquidity in Shares for the Independent Shareholders to dispose of a significant number of Shares over a prolonged period in the open market without exerting downward pressure on the Share price. In this connection, we consider that the Offer provides the Independent Shareholders with an assured exit at the Offer Price if they wish to realise their investments in Shares.

In addition, it is noted that the closing share price during the Second Review Period has been relatively volatile and that the closing share price as at the Latest Practicable Date of HK\$1.82 exceeded the Offer Price, those Independent Shareholders who intend to accept the Offer are reminded that they should closely monitor the market price of Shares

during the Offer Period and should consider selling their Shares in the open market, rather than accepting the Offer, if the net proceeds from the sale of such Shares in the open market would exceed the net proceeds receivable under the Offer.

4. Comparable companies analysis

In assessing the fairness and reasonableness of the Offer Price, we have also considered analysis on the price-to-earnings ratios, the price-to-book ratios (the “**P/B ratio(s)**”) and price-to-sales ratio (“**P/S ratio(s)**”) of companies which are listed on the Main Board of the Stock Exchange and are engaged in similar businesses to those of the Group for comparison purposes. It is considered that price-to-earnings ratios, the P/B ratios and the P/S ratios are three of the commonly used valuation benchmarks in assessing the valuation of a company as the data for calculating these ratios can be obtained from publicly available information and such reflects the value of the company determined by the open market. However, we noted that the Group recorded a loss attributable to its owners for FY2021, thus the price-to-earnings analysis would not be appropriate for comparison purposes. On this basis, we consider that the P/B ratio and P/S ratio are appropriate benchmarks to assess the fairness and reasonableness of the Offer Price.

Based on the net asset value attributable to owners of the Company of approximately HK\$205.3 million as at 31 March 2021, the revenue of the Group of approximately HK\$162.6 million for FY2021, and the total implied value of the Company under the Offer¹, being approximately HK\$266.8 million, the implied P/B ratio (the “**Implied P/B Ratio**”) and the implied P/S ratio (the “**Implied P/S Ratio**”) of the Company under the Offer would be approximately 1.30 times and 1.64 times, respectively.

For the purpose of our analysis, we have identified comparable companies based on the following criteria: (i) the shares of which are listed on the Main Board of the Stock Exchange; (ii) engages in principal business similar to those of the Group namely, the manufacture and sale of jewellery products contributed over 70% of its total revenue for the latest completed financial year; and (iii) a market capitalisation of not less than HK\$100 million and not more than HK\$800 million as at the Last Trading Day. Based on such criteria, we have identified, to the best of our knowledge, an exhaustive list of nine comparable companies (the “**Comparable Companies**”). The table below sets out the P/B ratio and the P/S ratio of the Comparable Companies as well as the Implied P/B Ratio and the Implied P/S Ratio under the Offer for comparison purposes.

¹ On the basis of the Offer Price of HK\$1.546 per Offer Share and 172,600,000 Shares in issue as at the Latest Practicable Date, the implied value of the Company is calculated to be approximately HK\$266.8 million.

| No. | Company name | Stock code | Principal business | Market capitalisation (approximately) HK\$'million (Note 1) | Equity attributable to its owners (approximately) HK\$'million | P/B ratio (approximately) (Note 2) | P/S ratio (approximately) |
|-----|--|------------|---|--|--|--|------------------------------|
| 1 | Asia Commercial Holdings Limited | 104 | principally engaged in sales of watches (retail and wholesale) and property leasing | 175.6 | 413.6 | 0.42 | 0.15 |
| 2 | King Fook Holdings Limited | 280 | principally engaged in gold ornament, jewellery, watch and gift retailing, bullion trading and diamond wholesaling | 382.9 | 660.5 | 0.58 | 0.60 |
| 3 | Tse Sui Luen Jewellery (International) Limited | 417 | principally engaged in jewellery businesses | 264.1 | 942.2 | 0.28 | 0.10 |
| 4 | Sincere Watch (Hong Kong) Limited | 444 | distribution of branded luxury watches, timepieces and accessories and property investment | 344.5 | 725.6 | 0.47 | 2.53 |
| 5 | Continental Holdings Limited | 513 | principally engaged in (i) design, manufacturing, marketing and trading of fine jewellery and diamonds; (ii) property investment and development; (iii) mining operation; and (iv) investment | 334.7 | 2,241.7 | 0.15 | 0.62 |
| 6 | Artini Holdings Limited | 789 | principally engaged in fashion accessories online platform distribution businesses | 119.2 | 158.2 | 0.75 | 1.50 |
| 7 | China Environmental Energy Investment Limited | 986 | principally engaged in design, original equipment manufacturing and marketing of jewellery and money lending | 157.4 | 309.4 | 0.51 | 1.49 |
| 8 | Luxxu Group Limited | 1327 | principally engaged in the manufacture and sales of own-branded watches and jewellery | 164.4 | 219.4 (Note 3) | 0.75 | 2.18 |

| No. | Company name | Stock code | Principal business | Market capitalisation (approximately) HK\$'million (Note 1) | Equity attributable to its owners (approximately) HK\$'million (Note 3) | P/B ratio (approximately) (Note 2) | P/S ratio (approximately) |
|-----|----------------------|------------|--|--|--|--|------------------------------|
| 9 | CSmall Group Limited | 1815 | principally engaged in the design and sales of gold, silver and other jewellery products | 755.1 | 1,700.5 (Note 3) | 0.44 | 1.81 |
| | | | | | Average | 0.48 | 1.22 |
| | | | | | Maximum | 0.75 | 2.53 |
| | | | | | Minimum | 0.15 | 0.10 |
| | | | | | The Company Implied P/B Ratio and Implied P/S Ratio | 1.30 (Note 1) | 1.64 (Note 1) |

Source: the website of the Stock Exchange and the respective interim/annual report of the listed company

Note 1: In respect of the Comparable Companies, market capitalisation is calculated based on the respective closing price as quoted on the Stock Exchange and the number of issued shares based on published information as at the Last Trading Day. In respect of the Company, implied market capitalisation is calculated based on the Offer Price of HK\$1.546 and 172,600,000 Shares in issue as at the Last Trading Day.

Note 2: Calculated by dividing the respective market capitalisation by the respective consolidated equity attributable to its owners, as extracted from the latest published financial statements or prospectus as at the Last Trading Day.

Note 3: As set out in the latest published financial statements of Luxxu Group Limited, the figures in the financial statements were expressed in RMB. For illustration purpose, an exchange rate of RMB1.00 = HK\$1.20 is used to convert RMB to Hong Kong Dollars.

(i) Analysis on P/B ratio

It is noted from the above table that the P/B ratio of the Comparable Companies ranged from approximately 0.15 times (Continental Holdings Limited) to 0.75 times (Artini Holdings Limited and Luxxu Group Limited), with an average of approximately 0.48 times. Based on their respective latest published financial statements or prospectus, the equity attributable to its owners recorded by the Comparable Companies ranged from approximately HK\$158.2 million (Artini Holdings Limited) to approximately HK\$2,241.7 million (Continental Holdings Limited). The Implied P/B Ratio of the Company of approximately 1.30 times is above the upper range of the P/B ratio of the Comparable Companies and higher than the average of the P/B ratio of the Comparable Companies.

For further analysis, we have also compared the Implied P/B Ratio of the Company of approximately 1.30 times against the Company's historical P/B Ratio, calculated based on (a) the market capitalisation of the Company based on the then closing price per Share; divided by (b) the equity attributable to the Shareholders as

at 31 March 2020, 30 September 2020 and 31 March 2021, being approximately 0.84 times, 0.87 times and 0.61 times, respectively (the “**Historical P/B Ratios**”). In this connection, the Implied P/B Ratio, is higher than each of the P/B ratio of the Comparable Companies and the Historical P/B Ratios, and the average of the P/B ratio of the Comparable Companies and the Historical P/B Ratios respectively, which implies that the Offer Price represents a higher valuation as compared to the relevant trading multiples of the Comparable Companies and the Company’s Historical P/B Ratios. Hence, we consider the Offer Price to be fair and reasonable in this regard.

(ii) Analysis on P/S ratio

It is noted from the above table that the P/S Ratios of the Comparable Companies ranged from approximately 0.10 times (Tse Sui Luen Jewellery (International) Limited) to 2.53 times (Sincere Watch (Hong Kong) Limited), with an average of approximately 1.22 times. Based on their respective latest published financial statements, the revenue recorded by the Comparable Companies for the latest completed financial year ranged from approximately HK\$75.4 million (Luxxu Group Limited) to approximately HK\$2,648.6 million (Tse Sui Luen Jewellery (International) Limited). The Implied P/S Ratio of the Company as represented by the Offer Price of approximately 1.64 times is within range and higher than the average of P/S Ratio of the Comparable Companies which implies that the Offer Price represents a higher valuation as compared to the relevant average trading multiples of the Comparables Companies. Hence, we consider the Offer Price to be fair and reasonable in this regard.

(iii) Summary

Having considered that (a) the Offer Price is within the range and above average of the closing price of Shares of approximately HK\$0.96 per Share during the Review Period; (b) the historical trading volume of the Shares is relatively thin, in particular, during the First Review Period; (c) the Implied P/B Ratio, calculated based on the Offer Price, exceeds the upper range and higher than the average of the P/B ratio of the Comparable Companies; (d) the Implied P/S Ratio is within range and higher than the average of the P/S Ratio of the Comparable Companies; and (e) the Company has recorded a loss for the year attributable to its owners for each of the past five financial years ended 31 March 2017, 2018, 2019, 2020 and 2021, such losses ranged from approximately HK\$9.2 million (for the financial year ended 31 March 2017) to approximately HK\$75.0 million (FY2021), we consider the Offer Price under the Offer to be fair and reasonable so far as the Independent Shareholders are concerned.

5. Information on the Offeror and the intention of the Offeror in relation to the Group

The following information of the intention of the Offeror regarding the Group has been extracted from the “Letter from Somerley”.

(a) Information of the Offeror

As stated in the “Letter from Somerley” contained in the Composite Document, Perfect Gain is an investment holding company incorporated in the British Virgin Islands with limited liability. As at the Latest Practicable Date, save for entering into the Sale and Purchase Agreement, Perfect Gain had not engaged in any business activities.

As at the Latest Practicable Date, Perfect Gain was beneficially wholly owned by Dr. So who is also the sole director of the company.

Dr. So Shu Fai, aged 70, is currently the vice-chairman, an executive director and CEO of SJM Holdings Limited (a company principally engaged in casino gaming operations and gaming-related activities and provision of hotel, catering retail and related services in Macau; and listed on the Stock Exchange with stock code 880) and the executive director of China Merchants Land Limited (a company principally engaged in development, sale, lease, investment of properties; assets management; and investment holding; and listed on the Stock Exchange with stock code 978). He is also the chairman of the board of directors of MACAUPORT — Sociedade de Administração de Portos, S.A.

Dr. So graduated with a Bachelor of Science degree from The University of Hong Kong in 1973, and received a doctoral degree in Management Studies from The International Management Centre as validated by Southern Cross University, Australia in 2001. He is currently a Chartered Secretary and a Chartered Governance Professional and a fellow member of The Hong Kong Chartered Governance Institute (formerly known as The Hong Kong Institute of Chartered Secretaries) and The Chartered Governance Institute in the United Kingdom. Dr. So is also a fellow member of The Hong Kong Institute of Directors.

(b) Intention of the Offeror in relation to the Group

While the Offeror intends to continue the principal business of the Group and has no intention to dispose of the businesses of the Group immediately after the close of the Offer, the Offeror is considering utilising livestream e-commerce as a new channel for the sale of the Group’s jewellery products and further expanding the Group’s jewellery sales to other overseas countries. Following the close of the Offer, the Offeror will conduct a detailed review of the business operations and financial position of the Group for the purpose of formulating business plans and strategies for the future business development of the Group. Subject to the result of the review and should suitable investment or business opportunities arise, the Offeror may also consider exploring other business opportunities to diversify the business of the Group with an objective to broaden its income source. However, as at the Latest Practicable Date, no such investment or business opportunity had been identified nor had the Offeror entered into any agreement, arrangement, understanding, intention or negotiation in relation to injection of any asset or business into the Group. As at the Latest Practicable Date, the Offeror had not entered into any agreement, arrangement, understanding, intention or negotiation in relation to redeployment of the employees, disposal and/or redeployment of the assets of the Group, or termination or scaling-down of any business of the Group.

(c) Proposed change to the composition of the Board

As at the Latest Practicable Date, the Board was made up of 11 Directors, comprising three executive Directors, namely Mr. Su Zhiyi, Mr. Xiong Cong and Mr. Cai Si; two non-executive Directors, namely Ms. Mary Ang Mei Lee and Mr. Tom Xie; and six independent non-executive Directors, namely Mr. Ting Tit Cheung, Mr. Chan Chi Kuen, Mr. Lo Chun Pong, Mr. Yau Pak Yue, Mr. Chung Wai Man and Mr. Ning Rui.

It is expected that all executive Directors, Ms. Mary Ang Mei Lee, Mr. Ting Tit Cheung, Mr. Chan Chi Kuen and Mr. Lo Chun Pong will resign from the Board with effect from a date no earlier than the date of the close of the Offer or at a date as permitted under the Takeovers Code.

On the other hand, it is intended that (i) Mr. Tom Xie shall be re-designated from the position of non-executive Director to the position of executive Director; and (ii) Mr. Chan Wai Dune shall be appointed as the non-executive Director, both with effect from a date no earlier than the date of the Composite Document or at a date as permitted under the Takeovers Code.

For the biographies of Mr. Tom Xie and Mr. Chan Wai Dune, please refer to the "Letter from Somerley" contained in the Composite Document.

(d) Public float and maintaining the listing status of the Company

The Offeror intends to maintain the listing of the Shares on the Stock Exchange after the close of the Offer. The Offeror and the new Directors to be appointed (whose appointment will be effective upon the close of the Offer) will undertake to the Stock Exchange to take appropriate steps as soon as possible following the close of the Offer to ensure that not less than 25% of the Shares will be held by the public.

For the avoidance of doubt, the Offer Shares to be tendered by the Independent Shareholders upon valid acceptance of the Offer will be retained by the Offeror. In case there is less than 25% of the Shares held by the public following the close of the Offer, the Offeror will place down the Shares held by it in order that there will be 25% of the issued Shares held by the public.

RECOMMENDATION

Having considered the abovementioned principal factors and reasons for the Offer, in particular that:

- (i) the Offer Price is within range of the highest and lowest closing price of Shares during the Review Period and represents (a) a discount of approximately 22.70% to the highest closing price of Shares of HK\$2.00 per Share during the Review Period; (b) a premium of approximately 171.23% over the lowest closing price of Shares of HK\$0.57 per Share during the Review Period; and (c) a premium of approximately 61.04% over the average daily closing price of Shares of approximately HK\$0.96 per Share during the Review Period;
- (ii) the Offer Price of HK\$1.546 per Share represents a discount to the closing price per Share as quoted on the Stock Exchange on the Last Trading Day, but a premium of approximately 18.44%, 51.22% and 68.04% over each of the 30-Day Average, the 60-Day Average and the 90-Day Average, respectively;
- (iii) the Offer Price of HK\$1.546 represents a premium of approximately 29.92% over the audited net asset value attributable to the Shareholders per Share of approximately HK\$1.19 as at 31 March 2021;
- (iv) the Implied P/B Ratio under the Offer of approximately 1.30 times is above (a) the upper range of the P/B ratio of the Comparable Companies, being from approximately 0.15 times to approximately 0.75 times; and (b) the average of P/B ratio of the Comparable Companies, being approximately 0.48 times;
- (v) the Implied P/S Ratio under the Offer of approximately 1.64 times is within range of the P/S ratio of the Comparable Companies, being from approximately 0.10 times to approximately 2.53 times, and above the average of P/S ratio of the Comparable Companies, being approximately 1.22 times;
- (vi) the Independent Shareholders shall also consider and monitor the trading volume of Shares during the Offer Period given the thin historical trading volume of the Shares on the Stock Exchange, in particular during the First Review Period, as discussed under the section headed “3. Liquidity of Shares” in this letter, they may experience difficulty in disposing significant number of their Shares in the open market without creating downward pressure on the price of Shares and that there is no assurance on whether the Shares price and liquidity can maintain at the prevailing level beyond the Offer Period. The Offer provides the Independent Shareholders with an assured exit if they wish to realise their investments in Shares; and

(vii) our analysis on the historical financial performance and position of the Group as set out under paragraph headed “1. Background and outlook of the Group” in this letter, which recorded a loss attributable to its owners for each of the five years ended 31 March 2017, 2018, 2019, 2020 and 2021. It is also noted that while maintaining the listing status of the Company on the Main Board of the Stock Exchange, as at the Latest Practicable Date, no investment or business opportunity had been identified nor had the Offeror entered into any agreements, arrangements, understandings, intention or negotiation in relation to injection of any asset or business into the Group,

we are of the opinion that terms of the Offer are fair and reasonable so far as the Independent Shareholders are concerned. However, in view of the recent volatility of the closing share price during the Second Review Period, those Independent Shareholders who intend to accept the Offer are reminded that they should closely monitor the market price of Shares during the Offer Period and should consider selling their Shares in the open market, rather than accepting the Offer, if the net proceeds from the sale of such Shares in the open market would exceed the net proceeds receivable under the Offer. On this basis, we recommend the Independent Board Committee to advise the Independent Shareholders to accept the Offer if the amount they can receive under the Offer is higher than the net proceeds from the sale of such Shares in the open market.

As each individual Independent Shareholder would have different investment objectives and/or circumstances, we recommend any Independent Shareholders who may require advice in relation to any aspect of the Offer and/or the Composite Document, or as to the action to be taken, to consult a licensed securities dealer, bank manager, solicitor, professional accountant, tax adviser or other professional adviser. Furthermore, they should carefully read the procedures for accepting the Offer as set out in the Composite Document, its appendices and the accompanying Forms of Acceptance.

Yours faithfully,
For and on behalf of
Red Sun Capital Limited



Lewis Lai
Managing Director

Mr. Lewis Lai is a licensed person registered with the SFC and a responsible officer of Red Sun Capital Limited to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and has around 15 years of experience in the corporate finance industry.

* *for identification purposes only*