



红日资本有限公司
RED SUN CAPITAL LIMITED

22 November 2024

To: *The Independent Board Committee and the Independent Shareholders of Realord Group Holdings Limited*

Dear Sirs,

**DISCLOSEABLE AND CONNECTED TRANSACTION
IN RELATION TO DISPOSAL OF 75% OF
THE ISSUED SHARES OF THE SINCERE COMPANY, LIMITED**

I. INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders with regard to the Agreement and the transactions contemplated thereunder, details of which are contained in the letter from the Board (the “Letter from the Board”) as set out in the circular to the Shareholders dated 22 November 2024 (the “Circular”). Unless otherwise specified, terms defined in the Circular have the same meanings in this letter.

On 1 November 2024 (after trading hours), the Company and MHL entered into the Agreement, pursuant to which the Company has conditionally agreed to sell, and MHL has conditionally agreed to acquire, the Sale Shares, being 75% of the total issued Sincere Shares held by the Company as at the date of the Agreement, at the Consideration of HK\$387,782,980, payable by MHL by way of setting off against part of the Shareholder’s Loan owing by the Company to MHL on a dollar-for-dollar basis.

As set out in the Letter from the Board, as one or more of the applicable percentage ratios as stipulated under Rule 14.07 of the Listing Rules in respect of the Disposal exceeds 5% but are all less than 25%, the Disposal constitutes a discloseable transaction of the Company, and is subject to the notification and announcement requirements pursuant to Chapter 14 of the Listing Rules.

As disclosed in the Letter from the Board, as at the Latest Practicable Date, MHL was interested in 903,160,000 Shares, representing approximately 62.69% of the total issued share capital of the Company, and was the controlling Shareholder. Accordingly, MHL is a connected person of the Company pursuant to Chapter 14A of the Listing Rules. The Disposal therefore also constitutes a connected transaction of the Company, and is subject to the notification, announcement and independent shareholders' approval requirements pursuant to Chapter 14A of the Listing Rules.

II. THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Yu Leung Fai, Mr. Fang Jixin and Mr. Ho Chun Chung Patrick, has been formed to advise the Independent Shareholders in respect of the Agreement and the transactions contemplated thereunder. Red Sun Capital Limited has been appointed by the Board with the approval of the Independent Board Committee as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in the same regard.

Our role as the independent financial adviser is to give our recommendation to the Independent Board Committee and the Independent Shareholders in respect of the Agreement and the transactions contemplated thereunder, as to whether (i) the Agreement is on normal commercial terms and fair and reasonable; and (ii) the transactions contemplated thereunder are conducted in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole, and how the Independent Shareholders should vote in respect of the relevant resolution to approve the transactions contemplated under the Agreement at the SGM.

III. OUR INDEPENDENCE

As at the Latest Practicable Date, we were independent from and not connected with the Company, Sincere and their respective shareholders, directors or chief executives, or any of their respective associates. Accordingly, we are qualified to give independent advice to the Independent Board Committee and the Independent Shareholders regarding the transactions contemplated under the Agreement.

Save for this appointment, we have not acted as an independent financial adviser to the independent board committee of the Company and/or the Independent Shareholders in the last two years. Apart from normal professional fees paid or payable to us in connection with this appointment as the independent financial adviser and the engagement as stated above as the independent financial adviser, no arrangements exist whereby we have received or will receive any fees or benefits from the Group or any other parties that could reasonably be regarded as relevant to our independence. Accordingly, we consider that we are independent from the Group pursuant to Rule 13.84 of the Listing Rules.

IV. BASIS OF OUR ADVICE

In formulating our advice, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations provided to us by the Group, the Directors and/or senior management of the Company (the “**Management**”). We have assumed that all information, representations and opinions contained or referred to in the Circular or made, given or provided to us by the Company, the Directors and the Management, for which they are solely and wholly responsible, were true and accurate and complete in all material respects at the time when they were made and continue to be so as at the Latest Practicable Date. We have assumed that all the opinions and representations made by the Directors in the Circular have been reasonably made after due and careful enquiry. The Directors and the Management confirmed that no material facts have been omitted from the information provided and referred to in the Circular.

We have not, however, carried out any independent verification of the information provided, nor have we conducted any independent investigation into the financial position, business and affairs of the Group, the Sincere Group, MHL and, where applicable, their respective shareholder(s) and subsidiaries or affiliates, and their respective history, experience and track records, or the prospects of the markets in which they respectively operate.

We consider that we have been provided with sufficient information to enable us to reach an informed view and to provide a reasonable basis for our advice. We have no reason to doubt the truth, accuracy and completeness of the statements, information, opinions and representations provided to us by the Group, the Directors and/or the Management and their respective advisers or to believe that material information has been withheld or omitted from the information provided to us or referred to in the aforesaid documents.

This letter is issued to the Independent Board Committee and the Independent Shareholders solely for their consideration of the transactions contemplated under the Agreement, and, except for its inclusion in the Circular, 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. In the event of inconsistency, the English text of this letter shall prevail over the Chinese translation of this letter.

V. PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have taken into consideration the following principal factors and reasons:

1. Information of the Group

The Group is principally engaged in (i) property investment, development and commercial operation; (ii) provision of financial services, including corporate finance advisory, asset management, securities brokerage services and margin financing, and money lending; (iii) scrap materials recycling business involving dismantling, processing, trading and sales of scrap materials; (iv) distribution and sales of motor vehicle parts; (v) provision of citizenship application and consultancy services on citizenship by investment programme and development of project in Grenada; and (vi) operation of department stores in Hong Kong. The department store business is being operated by Sincere under the brand name “Sincere”/“先施百貨”. The Company completed the acquisition of a majority control of Sincere in June 2021.

We herewith set out a summary of the financial information of the Group for the years ended 31 December 2022 and 2023 as extracted from the annual report of the Group for the year ended 31 December 2023 (the “**2023 Annual Report**”) and the financial information for the six months ended 30 June 2023 and 2024 as extracted from the interim report of the Group for the six months ended 30 June 2024 (the “**2024 Interim Report**”), respectively:

Summary of the consolidated statement of comprehensive income of the Group extracted from the 2023 Annual Report and 2024 Interim Report

	For the six months ended 30 June		For the year ended 31 December	
	2024	2023	2023	2022
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(unaudited)	(unaudited)	(audited)	(audited)
Revenue				
– Goods and services	290,794	335,341	689,404	1,126,123
– Rental income	22,283	9,038	19,452	14,924
– Interest income	36,531	48,090	92,629	57,763
Total Revenue	349,608	392,469	801,485	1,198,810
Cost of sales	(213,710)	(237,388)	(482,123)	(911,412)
Gross profit	135,898	155,081	319,362	287,398
(Loss)/Profit for the period/year attributable to owners of the Company	(515,424)	48,561	76,689	112,787

Financial performance of the Group for the six months ended 30 June 2023 (the “1H2023”) and the six months ended 30 June 2024 (the “1H2024”)

As set out in the 2024 Interim Report, the Group’s revenue decreased by approximately HK\$42.9 million or 10.9% from approximately HK\$392.5 million for 1H2023 to approximately HK\$349.6 million for 1H2024. The largest revenue stream for each of 1H2023 and 1H2024 was related to “Goods and services”, which contributed to over 80% of the Group’s total revenue for the aforesaid periods, respectively. For 1H2024, the Group recorded loss for the period attributable to owners of the Company of approximately HK\$515.4 million, compared to the profit for the period attributable to owners of the Company of approximately HK\$48.6 million for 1H2023. For detailed analysis on the financial performance of Sincere Group, please refer to the section headed “3.1 Background and financial information of Sincere Group” in this letter below.

Financial performance of the Group for the year ended 31 December 2023 (the “FY2023”) and the year ended 31 December 2022 (the “FY2022”)

As set out in the 2023 Annual Report, the Group’s revenue decreased by approximately HK\$397.3 million or 33.1% from approximately HK\$1,198.8 million for FY2022 to approximately HK\$801.5 million for FY2023. The largest revenue stream for each of FY2023 and FY2024 was related to “Goods and services”, which contributed to over 85% of the Group’s total revenue for the aforesaid years, respectively. The Group recorded profit for the year attributable to owners of the Company of approximately HK\$76.7 million for FY2023, representing a decrease of approximately HK\$36.1 million or 32.0% as compared to approximately HK\$112.8 million for FY2022.

Summary of the consolidated statement of financial position of the Group extracted from the 2023 Annual Report and the 2024 Interim Report

	As at 30 June 2024 HK\$’000 (unaudited)	As at 31 December 2023 HK\$’000 (audited)	2022 HK\$’000 (audited)
Non-current assets	10,090,810	10,710,856	9,908,685
Current assets	9,746,679	9,770,073	9,960,992
Non-current liabilities	5,881,928	13,317,129	7,907,199
Current liabilities	9,577,839	2,065,737	6,799,260
Equity attributable to the owners of the Company	2,925,211	3,592,939	3,610,950

Financial position of the Group as at 30 June 2024

The Group's total assets amounted to approximately HK\$19,837.5 million as at 30 June 2024 which primarily comprised, among others, (i) investment properties of approximately HK\$9,109.7 million; (ii) properties under development of approximately HK\$5,484.5 million; and (iii) proposed development project of approximately HK\$2,100.7 million. The total liabilities of the Group amount to approximately HK\$15,459.8 million as at 30 June 2024 which primarily comprised, among others, (i) bank borrowings, under non-current and current liabilities, of approximately HK\$9,330.1 million; (ii) loans from ultimate holding company (i.e. MHL), which is unsecured with an interest rate of 8.2% per annum and will be repayable in June 2026, of approximately HK\$2,779.2 million; (iii) deferred tax liabilities of approximately HK\$1,080.2 million; and (iv) other payables and accruals of approximately HK\$958.7 million. As at 30 June 2024, the equity attributable to the owners of the Company amounted to approximately HK\$2,925.2 million, representing a decrease of approximately HK\$667.7 million or 18.6% as compared to approximately HK\$3,592.9 million as at 31 December 2023.

Financial position of the Group as at 31 December 2023

The Group's total assets amounted to approximately HK\$20,480.9 million as at 31 December 2023 which comprised, among others, (i) investment properties of approximately HK\$9,542.1 million; (ii) properties under development of approximately HK\$5,555.1 million; and (iii) proposed development project of approximately HK\$2,101.9 million. The total liabilities of the Group amount to approximately HK\$15,382.9 million as at 31 December 2023 which comprised, among others, (i) bank borrowings, under non-current and current liabilities, of approximately HK\$9,559.9 million; (ii) loans from ultimate holding company (i.e. MHL) of approximately HK\$2,797.5 million; (iii) deferred tax liabilities of approximately HK\$1,172.3 million; and (iv) other payables and accruals of approximately HK\$740.8 million. As at 31 December 2023, the equity attributable to the owners of the Company amounted to approximately HK\$3,592.9 million, representing a decrease of approximately HK\$18.0 million or 0.5% as compared to approximately HK\$3,611.0 million as at 31 December 2022.

2. Reasons for and benefits of the Disposal

We have extracted and summarised the following background information, reasons for and benefits of the Disposal from the Letter from the Board.

The Management has considered the principal businesses of the Group, which covered a range of different businesses, including the department store business, which is being operated by Sincere under the brand name "Sincere"/"先施百貨", further details of the Group's principal businesses are set out under "1. Information of the Group" above and in the Letter from the Board.

It was also noted that the Group's financial position has been adversely impacted by the performance of the department store business operating by Sincere. During the three years ended 31 December 2023 and the six months ended 30 June 2024, the department store segment recorded segment loss of approximately HK\$19.2 million, HK\$35.3 million, HK\$91.1 million and HK\$12.4 million, respectively. In recent years, the operating environment of the Hong Kong retail market has continued to be challenging, which has adversely impacted on the performance of the department store operation.

During the year ended 31 December 2023, the department store segment contributed revenue of approximately HK\$145.6 million to the Group, representing approximately 18.2% of the total revenue of the Group. In addition to the segment operating loss from the department store operation of approximately HK\$27.9 million, there was also an impairment loss on goodwill in the amount of approximately HK\$63.2 million recognised during the year.

Taking into consideration the continuous loss recorded by the Sincere Group and the lacklustre short to medium term outlook of the Hong Kong's retail market, the Board considers that the dissatisfactory performance of the Sincere Group may continue to have negative impact on the financial position of the Group.

The primary reason for the Disposal is to mitigate the market uncertainties of the department store operation to the Group in light of, among others, the historical years of segment losses recorded and the prevailing retail market sentiment. The Consideration was determined with reference to the Cost of Investment, and that the Consideration represents a substantial premium over the prevailing market price of the Sincere Shares and the consolidated net assets of Sincere.

Having considered the factors above, in particular, (i) the Group's department store segment recorded segment loss during each of the two years ended 31 December 2023 and the six months ended 30 June 2024 attributable to the Sincere Group; (ii) the impairment losses related to the Sincere Group as recorded by the Group; and (iii) barring unforeseen circumstances, the Sincere Group will continue to face and operate under the challenging outlook of the Hong Kong retail market, we concur with the view of the Directors that the Disposal is in the interests of the Company and the Shareholders as a whole.

3. Our analysis on the Disposal

As part of our work for assessing the fairness and reasonableness of the terms of the Agreement, we have, among others, considered factors and carried out analysis including the following.

3.1 Background and financial information of Sincere Group

Sincere was incorporated in Hong Kong with limited liability, the issued shares of which are listed on the Main Board of the Stock Exchange (stock code: 0244). As at the Latest Practicable Date, Sincere is owned as to 75% by the Company and 25% by public shareholders. Principal businesses of the Sincere Group comprise (i) the operation of department stores; (ii) securities trading; and (iii) the provision of life insurances.

The financial information of the Sincere Group for the years ended 31 December 2022 and 2023 as extracted from the annual report of the Sincere Group for the year ended 31 December 2023 (the “**2023 Sincere Annual Report**”) and the financial information for the six months ended 30 June 2023 and 2024 as extracted from the interim report of the Sincere Group for the six months ended 30 June 2024 (the “**2024 Sincere Interim Report**”), are set out below:

Summary of the consolidated statement of comprehensive income of the Sincere Group extracted from the 2023 Sincere Annual Report and 2024 Sincere Interim Report

	For the six months ended		For the year ended	
	30 June		31 December	
	2024	2023	2023	2022
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(unaudited)	(unaudited)	(audited)	(audited)
Revenue	65,050	74,356	146,147	146,516
Cost of sales	(29,116)	(30,432)	(62,213)	(64,575)
Gross profit	35,934	43,924	83,934	81,941
(Loss) for the period/ year attributable to equity holders of Sincere	(27,260)	(17,493)	(50,477)	(60,756)

Financial performance of the Sincere Group for 1H2023 and 1H2024

As set out in the 2024 Sincere Interim Report, the Sincere Group’s revenue decreased by approximately HK\$9.3 million or 12.5% from approximately HK\$74.4 million for 1H2023 to approximately HK\$65.1 million for 1H2024. For 1H2024, the Sincere Group recorded loss for the period attributable to equity holders of Sincere of approximately HK\$27.3 million, representing an increase in losses of approximately HK\$9.8 million or 55.8% as compared to approximately HK\$17.5 million for 1H2023.

Financial performance of the Sincere Group for FY2023 and FY2022

As set out in the 2023 Sincere Annual Report, the Sincere Group’s revenue was largely stable at approximately HK\$146.5 million for FY2022 and approximately HK\$146.1 million for FY2023, respectively. The Sincere Group recorded loss for the year attributable to equity holders of Sincere of approximately HK\$50.5 million for FY2023, representing a reduction in losses of approximately HK\$10.3 million or 16.9% as compared to approximately HK\$60.8 million for FY2022.

Summary of the consolidated statement of financial position of the Sincere Group extracted from the 2023 Sincere Annual Report and the 2024 Sincere Interim Report

	As at 30 June	As at	
	2024	31 December	2022
	HK\$'000	HK\$'000	HK\$'000
	(unaudited)	(audited)	(audited)
Non-current assets	268,592	419,213	433,523
Current assets	255,235	173,403	249,171
Non-current liabilities	7,501	213,928	19,586
Current liabilities	415,556	253,134	489,468
Equity attributable to the equity holders of the Sincere Group	55,710	81,125	127,709

Financial position of Sincere Group as at 30 June 2024

The Sincere Group's total assets amounted to approximately HK\$523.8 million as at 30 June 2024 which mainly comprised, among others, (i) prepayments, deposits, other receivables and other assets of approximately HK\$249.0 million (under both non-current assets and current assets), including the carrying amount of gift receivable from Win Dynamic Limited ("**Win Dynamic**") amounted to approximately HK\$200.7 million, net of expected credit loss allowance of approximately HK\$1.7 million. Further details of which are set out in the paragraphs below; (ii) asset classified as held for sale of approximately HK\$177.0 million; and (iii) inventories of approximately HK\$34.3 million.

The "Gift receivable from Win Dynamic balance amounted to approximately HK\$202.5 million, net of expected credit loss allowance of approximately HK\$1.7 million as at 30 June 2024. During the six months ended 30 June 2024, the Group has also recognised imputed interest income on gift receivable from Win Dynamic under "Other income and gains, net" of approximately HK\$9.4 million.

As per the 2024 Interim Report, such gift receivable was pursuant to a deed executed by Win Dynamic, being the then controlling shareholder of Sincere, in favour of Sincere at no consideration in October 2020 (the "**Deed**"). However, subsequent in February 2021, Win Dynamic issued a letter to the board of Sincere (the "**Sincere Board**") stating that, among others, Win Dynamic's declaration that the Deed was null and void and cancelled with immediate effect, for the reason that it was executed by Win Dynamic under undue influence and duress, given without separate legal representation or proper advice (the "**Purported Cancellation**").

Against this backdrop, the Purported Cancellation become the subject matter of an ongoing litigation between the Company and Win Dynamic. Such litigation was initiated back in May 2021 by the Company, where the Company issued a writ of summons in the High Court of the Hong Kong Special Administrative Region against Win Dynamic in relation to the Purported Cancellation (the “Action”). In July 2021, Sincere agreed to be joined as a party to the Action. The corresponding legal proceedings have commenced since 2021 and remained ongoing as at the Latest Practicable Date. For further details, please refer to the disclosure as set out in the 2024 Interim Report.

Based on our discussion with the Management and the information available, the recovery of the gift receivable balance is subject to the actual outcome of the legal proceedings, and the timing of settlement is also uncertain as at the Latest Practicable Date.

The total liabilities of the Sincere Group amounted to approximately HK\$423.1 million as at 30 June 2024 which mainly comprised, among others, (i) loan from a related company of approximately HK\$211.0 million; (ii) bank borrowing of approximately HK\$83.9 million; (iii) deposits, accrued expenses and other payables of approximately HK\$55.2 million; and (iv) creditors of approximately HK\$46.8 million.

As at 30 June 2024, the equity attributable to the equity holders of the Company amounted to approximately HK\$55.7 million, representing a decrease of approximately HK\$25.4 million or 31.3% as compared to approximately HK\$81.1 million as at 31 December 2023.

Financial position of the Sincere Group as at 31 December 2023

The Sincere Group’s total assets amounted to approximately HK\$592.6 million as at 31 December 2023 which mainly comprised, among others, (i) prepayments, deposits, other receivables and other assets of approximately HK\$237.9 million (under both non-current assets and current assets), including the carrying amount of gift receivable from Win Dynamic amounted to HK\$191.9 million, net of expected credit loss allowance of approximately HK\$1.1 million; (ii) property, plant and equipment of approximately HK\$189.3 million; and (iii) cash and bank balances of approximately HK\$92.7 million.

The total liabilities of the Sincere Group amounted to approximately HK\$467.1 million as at 31 December 2023 which mainly comprised, among others, (i) loan from a related company of approximately HK\$211.0 million, which is unsecured and bears interest at HIBOR plus 5% per annum and is repayable on 20 March 2025; (ii) bank borrowing of approximately HK\$84.3 million; and (iii) loan from immediate holding company (i.e. the Company) of approximately HK\$71.9 million which was unsecured with an interest rate of 8.2% per annum and repayable on or before 10 August 2024; (iv) deposits, accrued expenses and other payables of approximately HK\$42.8 million; and (v) creditors of approximately HK\$38.0 million.

As at 31 December 2023, the equity attributable to the equity holders of the Company amounted to approximately HK\$81.1 million, representing a decrease of approximately HK\$46.6 million or 36.5% as compared to approximately HK\$127.7 million as at 31 December 2022.

3.2 Overview of the retail market in Hong Kong

Based on the aforesaid analysis, in particular, the Sincere Group has recorded losses attributable to equity holders of Sincere for the six months ended 30 June 2024, and for the two years ended 31 December 2022 and 2023, the historical financial performance of the Sincere Group has not been satisfactory. Having reviewed the historical financial performance of the Sincere Group, we will analyse the retail market in Hong Kong in this sub-section.

According to the statistics of the Census and Statistics Department of the Government of the Hong Kong Special Administrative Region¹, the value of sales recorded HK\$279.4 billion for the nine months ended 30 September 2024, representing a decrease of approximately HK\$22.9 billion or 7.6% as compared to approximately HK\$302.3 billion for the nine months ended 30 September 2023.

As per the publication titled “Gloom Deepens in the Retail Sector as Sales Drop Further”² by Hong Kong Trade Development Council in October 2024, tourism-oriented trades, including clothing, footwear and allied products, department stores, and jewellery, watches and clocks, and valuable goods, all suffered a double digit decrease in sales value during the first seven months of 2024 compared to the same period in 2023 and the retail sales performance for the remainder of 2024 is expected to remain soft.

On this basis, the operating environment of the retail market in Hong Kong has been challenging and barring unforeseen circumstances, such is expected to continue into the foreseeable future.

¹ Statistics of total retail sales (Source: www.censtatd.gov.hk/en/web_table.html?id=620-67001)

² Publication by Hong Kong Trade Development Council titled “Gloom Deepens in the Retail Sector as Sales Drop Further” (Source: research.hktdc.com/en/article/MTgxNjE2ODAyMQ)

3.3 Background of the voluntary conditional cash offer

We noted that Sincere is currently a 75% non-wholly owned subsidiary of the Group, and the subject 75% equity interest of Sincere (i.e. the Sale Shares) was acquired by the Company in 2021. The background of which is set out below.

With reference to (i) the joint announcement dated 15 May 2020 whereby the Company, as the “VGO Offeror”, and Sincere, as the offeree company, jointly announced, among others, that Realord Asia Pacific Securities Limited intended to make, for and on behalf of the VGO Offeror and subject to the satisfaction or the waiver (as the case may be) of the pre-conditions, a voluntary conditional cash offer (the “VGO”) to acquire all of the then issued shares of Sincere; and (ii) the joint announcement dated 17 June 2020 issued by the VGO Offeror and Sincere, set out, among others, the final offer price under the VGO is fixed at HK\$0.3935 per Sincere Share.

The 75% equity interest of Sincere held by the Group (i.e. the Sale Shares) was acquired by the Company via the VGO as mentioned in the preceding paragraph. The VGO was closed in June 2021 and the acquisition cost of the Sale Shares for the Group via the VGO was approximately HK\$387.8 million, or HK\$0.3935 per Sincere Share.

It is noted that the Consideration of HK\$387,782,980, or HK\$0.3935 per Sincere Share, is the same as the offer price per Sincere Share of HK\$0.3935 paid by the Group under the VGO.

3.4 Consideration

As set out in the Letter from the Board, The Consideration of HK\$387,782,980, or HK\$0.3935 per Sincere Share, was determined upon arm's length negotiations between the Company and MHL with reference to the Cost of Investment.

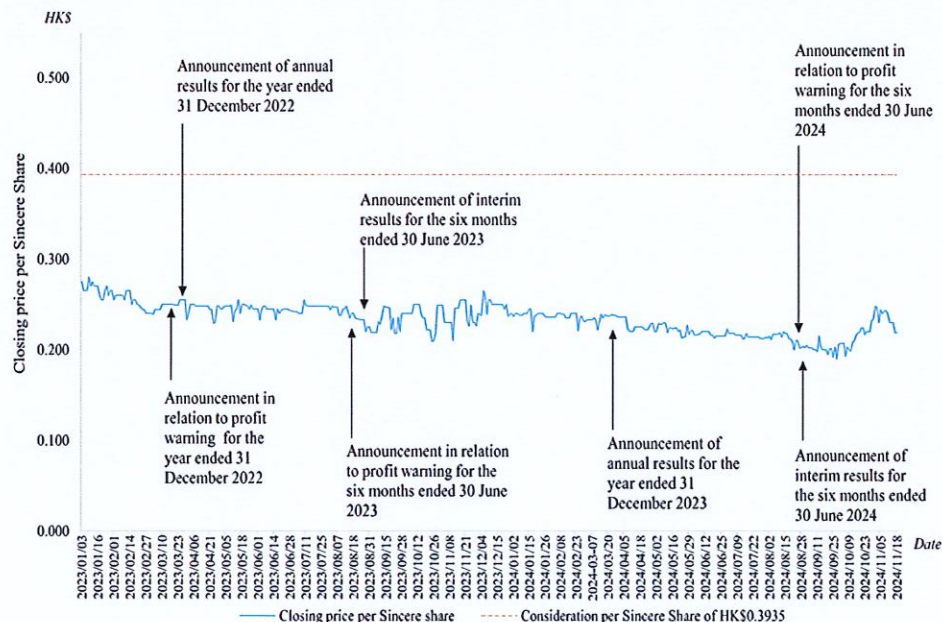
The Consideration per Sincere Share of HK\$0.3935 represents:

- (i) a premium of approximately 79.7% over the closing price of HK\$0.219 per Sincere Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) a premium of approximately 58.7% over the closing price of HK\$0.248 per Sincere Share as quoted on the Stock Exchange on the Last Trading Day;
- (iii) a premium of approximately 70.3% over the average of the closing prices per Sincere Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day of approximately HK\$0.231;
- (iv) a premium of approximately 86.5% over the average of the closing prices per Sincere Share as quoted on the Stock Exchange for the last 30 consecutive trading days up to and including the Last Trading Day of approximately HK\$0.211;
- (v) a premium of approximately 534.7% over the audited consolidated net asset value per Sincere Share attributable to equity holders as at 31 December 2023 of approximately HK\$0.062 per Sincere Share calculated based on the audited consolidated net assets of the Sincere Group attributable to equity holders of approximately HK\$81.1 million as at 31 December 2023 and 1,313,962,560 Sincere Shares in issue; and
- (vi) a premium of approximately 836.9% over the unaudited consolidated net asset value per Sincere Share attributable to equity holders as at 30 June 2024 of approximately HK\$0.042 per Sincere Share calculated based on the unaudited consolidated net assets of the Sincere Group attributable to equity holders of approximately HK\$55.7 million as at 30 June 2024 and 1,313,962,560 Sincere Shares in issue.

(a) *Our analysis on historical Sincere Share price performance*

In order to assess the fairness and reasonableness of the Consideration per Sincere Share, we have also reviewed the movements in the closing price per Sincere Share during (i) the period from 3 January 2023, being the first trading day of 2023, up to and including the Last Trading Day (the “**First Review Period**”); and (ii) the period commencing on 1 November 2024, being the trading day immediately after the Last Trading Day and up to and including the Latest Practicable Date (the “**Second Review Period**”, together with the First Review Period, the “**Review Period**”). We consider that the First Review Period, being a period of around 22 months, to be of an appropriate length of time for our review of the closing prices of Sincere Shares as such period covered the publication of several interim and annual results of the Sincere Group and therefore would capture the possible market reactions to the then financial performance and position of the Sincere Group, thus is an appropriate benchmark to assess the fair value of the Sincere Shares, and that it is considered to be adequate and sufficient to illustrate the recent price movements of the Sale Shares for conducting a comparison between (i) the Consideration per Sincere Share; and (ii) the closing price of the Sincere Shares, for assessing the reasonableness of the Consideration per Sincere Share.

Sincere Share price chart during the Review Period



Source: www.hkex.com.hk

As illustrated in the chart above, during the First Review Period, the closing Sincere Share was generally on a declining trend. The closing prices per Sincere Share ranged from HK\$0.190 (27 September 2024) to HK\$0.280 (9 January 2023), and that the average closing price per Sincere Share for the First Review Period was approximately HK\$0.234.

During the First Review Period, Sincere Group issued three profit warning announcements dated 17 March 2023, 17 August 2023 and 25 August 2024, respectively. The Sincere Group recorded loss attributable to its equity holders of (i) approximately HK\$60.8 million and HK\$50.5 million for the year ended 31 December 2022 and 2023; and (ii) approximately HK\$27.3 million for the six months ended 30 June 2024.

The closing price per Sincere Share was HK\$0.275 at the commencement of the First Review Period on 3 January 2023, such was decreased to HK\$0.255 per Sincere Share on the date after the issuance of the final results for the year ended 31 December 2022, further decreased to HK\$0.238 per Sincere Share on the date after the issuance of the final results for the year ended 31 December 2023 and further to HK\$0.204 per Sincere Share on the date after the issuance of the interim results for the six months ended 30 June 2024. The aforesaid decreases in the closing price per Sincere Share coincided with a period of unsatisfactory financial performance of the Sincere Group.

During the Second Review Period, the closing price per Sincere Share ranged from HK\$0.219 to HK\$0.247.

In light of the above analysis on historical price performance of the Sincere Share, it is noted that the Consideration per Sincere Share of HK\$0.3935 is (i) higher than the average closing price per Sincere Share during the First Review Period; (ii) at a notable premium over the closing price per Sincere Share as quoted on the Stock Exchange on the Last Trading Day, for the last five and 30 consecutive trading days up to and including the Last Trading Day, respectively; and (iii) exceeded the top range of the closing price per Sincere Share of HK\$0.280 during the First Review Period,

(b) *Our analysis on historical trading volume and liquidity of Sincere Shares*

Month/period	Number of trading days in the month/period	Number of days with trading of Sincere Shares in the month/period	Average daily number of Sincere Shares traded per trading days in the month/period	Percentage of average daily number of Sincere Shares traded to the total number of Sincere Shares in issue as at the end of the month/period (Note 1)	Percentage of average daily number of Sincere Shares traded to the total number of Sincere Shares held by public shareholders of Sincere (Note 2)
First Review Period					
2023					
January	18	15	175,611	0.01%	0.05%
February	20	16	94,100	<0.01%	0.03%
March	23	8	65,998	<0.01%	0.02%
April	17	10	63,588	<0.01%	0.02%
May	21	9	30,762	<0.01%	0.01%
June	21	10	143,095	0.01%	0.04%
July	20	4	37,050	<0.01%	0.01%
August	23	16	66,794	<0.01%	0.02%
September	19	13	497,284	0.04%	0.15%
October	20	8	43,050	<0.01%	0.01%
November	22	13	792,493	0.06%	0.24%
December	19	9	328,053	0.02%	0.10%
2024					
January	22	14	390,455	0.03%	0.12%
February	19	7	52,263	<0.01%	0.02%
March	20	8	105,700	<0.01%	0.03%
April	20	8	271,120	0.02%	0.08%
May	21	17	105,438	<0.01%	0.03%
June	19	9	80,000	<0.01%	0.02%
July	22	11	103,182	<0.01%	0.03%
August	22	17	1,261,773	0.10%	0.38%
September	19	15	746,947	0.06%	0.23%
October (up to and including the Last Trading Day)	21	20	359,496	0.03%	0.11%
Second Review Period					
November (commencing from the trading day immediately after the Last Trading Day up to the Latest Practicable Date)					
	12	8	3,535,083	0.27%	1.08%
Minimum during the First Review Period				<0.01%	0.01%
Maximum during the First Review Period				0.10%	0.38%
Average during the First Review Period				0.02%	0.08%

Source: www.hkex.com.hk

Notes:

1. Calculated based on the total number of the Sincere Shares in issue at the end of month/period.
2. Calculated based on the total number of the Sincere Shares in issue deducted by the number of Sincere Shares held by the Company.

As set out in the table above, during the First Review Period, the percentage of average daily trading volume of the Sincere Shares by month/period, were in the range of (i) less than 0.01% to approximately 0.10% with an average of approximately 0.02% as to the total number of issued Sincere Shares; and (ii) approximately 0.01% to approximately 0.38% with an average of approximately 0.08% as to the total number of Sincere Shares held by public shareholders of Sincere, which illustrates that the trading liquidity of the Sincere Shares has been low in the open market. As such, disposing a substantial volume of Sincere Shares within a short period of time in the open market would be impractical.

(c) Our analysis on market comparables

For our market comparable analysis, we have considered common valuation market ratio, namely, price-to-earnings ratio, price-to-sales ratio and price-to-book ratio, for comparison purposes.

However, as set out in the 2023 Sincere Annual Report and the 2024 Sincere Interim Report, the Sincere Group recorded a loss for the year/period attributable to its equity holders for the year ended 31 December 2023 and the six months ended 30 June 2024. On this basis, price-to-earnings ratio analysis is not applicable. We also noted that the revenue of the Sincere Group fluctuated from approximately HK\$130.1 million (on an annualised basis³) to approximately HK\$146.1 million based on the six months ended 30 June 2024 and the year ended 31 December 2023. Such fluctuations would distort the results of analysis on price-to-sales ratio. Furthermore, the size of the revenue of the market comparables would differ from that of the Sincere Group and that their respective revenue would also fluctuate from year-to-year making the relevant analysis of a limited use for comparison purposes. Given the aforesaid limitations, price-to-sales ratio analysis is not included in our analysis below. Nonetheless, as part of our analysis, we have evaluated the Consideration by conducting an analysis on the price-to-book ratio (the “**P/B Ratio**”).

In this connection, having considered the principal businesses of the Group, 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 main board of the Stock Exchange as at the Last Trading Day; (ii) the listed company(ies) that falls under the category “Consumer Discretionary – Specialty Retail” of the Industry Classification (HSIC) according to the Stock Exchange’s website; (iii) the listed company is engaged in the operations of department stores with more than 50% of its total revenue generated from such operations for its latest completed and published financial year; (iv) the listed company operate department stores and generate over 50% of its revenue in Hong Kong (together the “**Comparable Companies Criteria**”).

³ The annualised amount is calculated based on the revenue of the Sincere Group for the six months ended 30 June 2024 for illustration purposes only and does not purport the actual annual revenue of the Sincere Group for its full financial year.

Based on the Comparable Companies Criteria, we have identified a list of two comparable companies (the “Market Comparables”) and set out in the following table the details of the Market Comparables:

	Closing price as at Last Trading Day (HK\$)	Market capitalisation as at Last Trading Day (HK\$)	P/B Ratio (approximate)
Henderson			
Investment Limited (97.HK)	0.118	359,584,633	0.33
Wing On Company			
International Limited (289.HK)	12.18	3,529,544,760	0.20
		Average	0.27
		Maximum	0.33
		Minimum	0.20
	Consideration per Sincere Share (HK\$)	Implied market capitalisation (HK\$)	Implied P/B Ratio (approximate)
Sincere (244.HK)	0.3935	517,044,267	9.28

As shown in the table above, the P/B Ratio of the Market Comparables ranged from approximately 0.20 times to approximately 0.33 times (“P/B Comparables Range”) with an average of approximately 0.27 times. The implied P/B Ratio of Sincere under the Disposal (“Implied P/B Ratio”) of approximately 9.28 times, calculated based on the Consideration divided by the equity attributable to the equity holders of Sincere as at 30 June 2024, is higher than the P/B Comparables Range, representing that the implied valuation on a P/B Ration basis is significantly higher than that of the price-to-book trading multiples of the Market Comparables, which supports that the Consideration is in the interests of the Company and the Shareholders as a whole.

3.5 Settlement of Consideration

As disclosed in the Letter from the Board, the Consideration shall be payable by MHL to the Company by way of setting off against part of the carrying amount of the Shareholder's Loan on a dollar-for-dollar basis pursuant to the Agreement (the "Set Off").

The outstanding amount of the Shareholder's Loan owing by the Company to MHL, amounted to approximately HK\$2,969.0 million as at the date of the Agreement and the Shareholder's Loan is unsecured, interest-bearing at 8.2% per annum and shall be repayable in June 2026.

Having considered that, the Set Off (i) reduces the liabilities, namely the Shareholder's Loan, of the Group; (ii) reduces the finance costs in the form of interest expenses arising from the outstanding Shareholder's Loan of the Group; and (iii) increase the capital reserve of the Group as further elaborated under the section headed "4. Possible financial effects of the Disposal" in this letter below, we are of the view that the settlement methodology of the Consideration is reasonable.

3.6 Summary of our analysis on the Disposal

Having considered (i) the historical financial performance of the Sincere Group for the two years ended 31 December 2022 and 2023, and the six months ended 30 June 2024, which the Sincere Group recorded a loss for the subject year/period, respectively; (ii) the prospects of the Hong Kong retail industry; (iii) the Consideration is equivalent to the original cost of investment of approximately HK\$387.8 million paid by the Company for acquiring the Sale Shares pursuant to a voluntary cash general offer in June 2021; (iv) the Consideration per Sincere Share exceeded the top range of the closing price per Sincere Share during the First Review Period and represented a substantial premium over (aa) the average closing price per Sincere Share during the First Review Period; and (bb) the closing price per Sincere Share on the Last Trading Day, for the last five and 30 consecutive trading days up to and including the Last Trading Day, respectively; (v) the Consideration per Sincere Share represented over nine times of the unaudited consolidated net asset value per Sincere Share attributable to equity holders as at 30 June 2024; (vi) the low trading liquidity of Sincere Shares in the open market during the First Review Period; (vii) the Implied P/B Ratio is substantially higher than the P/B Comparables Range; and (viii) our analysis on the settlement methodology as set out above, we concur with the view of the Directors that the Disposal is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

4. Possible financial effects of the Disposal

Upon Completion, the Company will cease to have any interests in Sincere, and Sincere will cease to be a subsidiary of the Company and the financial results, assets and liabilities of the members of the Sincere Group will no longer be consolidated into the financial statements of the Group.

It is expected that the Group will record a gain on disposal recognised in the capital reserve of approximately HK\$170.7 million, which is calculated by subtracting the Consideration of HK\$387,782,980 by (i) the net carrying amount of the Sincere Group (net of non-controlling interest) in the accounts of the Group as at 30 June 2024 of approximately HK\$214.8 million; (ii) adjustment of exchange differences arising from the Disposal of approximately HK\$0.7 million; and (iii) the estimated transaction costs that may be incurred in the Disposal of approximately HK\$1.6 million. The aforesaid expected gain on disposal is for illustrative purpose only. It also does not purport to represent the actual gain or loss of the Group from the Disposal which will be subject to, among other things, audit.

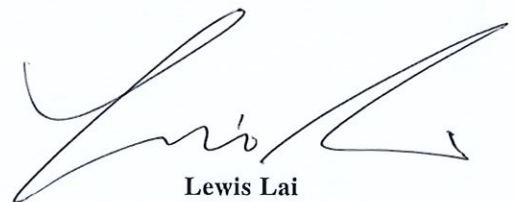
Upon Completion, the outstanding amount of the Shareholder's Loan owing by the Company to MHL will also be reduced by the amount of the Consideration of HK\$387,782,980.

VI. RECOMMENDATION

Having considered of the above principal factors and reasons, we consider that although the Agreement and the transactions contemplated thereunder are not entered into under the ordinary and usual course of the business of the Group, the Agreement is on normal commercial terms, and the transactions contemplated under the Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the relevant ordinary resolution to be proposed at the SGM to approve the Agreement and the transactions contemplated thereunder.

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 over 17 years of experience in the corporate finance industry.

* for identification purposes only