
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt to any aspect of this circular or as to the action to be taken, you should consult your stockbrokers, licensed securities dealer, registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your securities in GOME Retail Holdings Limited (the “Company”), you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the bank, stockbrokers, licensed securities dealer, registered institution in securities or other agent through whom the sales or transfer was effected for transmission to the purchaser or the transferee.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities of the Company.



GOME RETAIL HOLDINGS LIMITED

國美零售控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 493)

**(1) CONNECTED TRANSACTION AND ISSUE OF NEW SHARES
UNDER SPECIFIC MANDATE: DEBT CAPITALISATION;
(2) PROPOSED REFRESHMENT OF GENERAL MANDATE
AND
(3) NOTICE OF SGM**

**Independent Financial Adviser to the Independent Board Committee
and the Independent Shareholders**



Capitalised terms used on this cover shall have the same meanings as those defined in this circular, unless the context requires otherwise. A letter from the Board is set out on pages 4 to 15 of this circular and a letter from the Independent Board Committee to the Independent Shareholders is set out on pages 16 to 17 of this circular. A letter from the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 18 to 52 of this circular.

A notice convening the SGM to be held at Forum Room I, Basement 2, Regal Hong Kong Hotel, 88 Yee Wo Street, Causeway Bay, Hong Kong on Monday, 27 March 2023 at 2:30 p.m. is set out on pages SGM-1 to SGM-4 of this circular. A form of proxy for the SGM for use by the Shareholders is enclosed with this circular. Whether or not you are able to attend the SGM in person, please complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the Company's branch share registrar in Hong Kong, Tricor Abacus Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong as soon as practicable and in any event not later than 48 hours before the time designated for holding the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or at any adjourned meeting should you so wish.

* For identification purpose only.

Hong Kong, 10 March 2023

CONTENTS

| | <i>Page</i> |
|--|-------------|
| Definitions | 1 |
| Letter from the Board | 4 |
| Letter from the Independent Board Committee | 16 |
| Letter from the Independent Financial Adviser | 18 |
| Appendix – General Information | 53 |
| Notice of SGM | SGM-1 |

DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions shall have the following meanings:

| | |
|----------------------------|---|
| “Agreement” | the agreement dated 18 January 2023 among the Company, the First Creditor and the Second Creditor relating to the Debt Capitalisation; |
| “associate” | has the meaning ascribed to it under Chapter 14A of the Listing Rules; |
| “Board” | the board of Directors; |
| “Business Day” | any day (excluding Saturday and Sunday) on which banks are generally open for business in Hong Kong; |
| “Capitalisation Share(s)” | 7,980,539,000 new Shares; |
| “Company” | GOME Retail Holdings Limited, a company incorporated in Bermuda, the shares of which are listed on the main board of the Stock Exchange (stock code: 493); |
| “Creditors” | the First Creditor and the Second Creditor, collectively; |
| “Debt Capitalisation” | the capitalisation of the debt owed by the Group to the Creditors; |
| “Director(s)” | the director(s) of the Company; |
| “Existing General Mandate” | the general mandate granted to the Directors by the resolution of the Shareholders passed at the annual general meeting of the Company held on 27 May 2022 to allot, issue and deal with new Shares not exceeding 20% of the issued share capital of the Company as at the date of the annual general meeting (being 6,751,308,839 Shares); |
| “First Creditor” | Shinning Crown Holdings Inc., a company incorporated in British Virgin Islands and wholly-owned by Mr. Wong; |
| “Group” | the Company and its subsidiaries; |
| “HK\$” | Hong Kong dollar, the lawful currency of Hong Kong; |

DEFINITIONS

| | |
|--|---|
| “Hong Kong” | the Hong Kong Special Administrative Region of the People’s Republic of China; |
| “Independent Board Committee” | an independent committee of the Board, comprising all the independent non-executive Directors, established to advise the Independent Shareholders in relation to the Agreement, the Debt Capitalisation and the Proposed Refreshment of General Mandate; |
| “Independent Financial Adviser” or “Opus Capital” | Opus Capital Limited, a corporation licensed under the SFO to conduct Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the Agreement, the Debt Capitalisation and the Proposed Refreshment of General Mandate and to make recommendations on voting; |
| “Independent Shareholders” | (in respect of the Agreement and the Debt Capitalisation) Shareholders other than Mr. Wong and his associates, and (in respect of the Proposed Refreshment of General Mandate) Shareholder(s) other than the controlling shareholders and their associates or, if there is no controlling shareholder, the Directors (excluding independent non-executive Directors) and their respective associates; |
| “Last Trading Day” | 17 January 2023, the last trading day of the Shares prior to the entering into of the Agreement; |
| “Latest Practicable Date” | 7 March 2023, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular; |
| “Listing Committee” | has the meaning ascribed to such term in the Listing Rules; |
| “Listing Rules” | the Rules Governing the Listing of Securities on the Stock Exchange; |
| “Model Code” | the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules; |

DEFINITIONS

| | |
|---|---|
| “Mr. Wong” | Mr. Wong Kwong Yu; |
| “PRC” | the People’s Republic of China; |
| “Proposed Refreshment of General Mandate” | the new general mandate proposed to be sought at the SGM to authorise the Directors to allot, issue and deal with new Shares not exceeding 20% of the issued share capital of the Company as at date of passing of the relevant resolution; |
| “RMB” | Renminbi, the lawful currency of the PRC; |
| “Second Creditor” | GOME Management Limited, a company incorporated in Hong Kong and wholly-owned by Mr. Wong; |
| “SFO” | The Securities and Future Ordinance (Chapter 571 of the Laws of Hong Kong); |
| “SGM” | the special general meeting of the Company (or any adjournment thereof) to be convened and held at Forum Room I, Basement 2, Regal Hong Kong Hotel, 88 Yee Wo Street, Causeway Bay, Hong Kong on Monday, 27 March 2023 at 2:30 p.m. or any adjournment thereof (as the case may be), the notice of which is set out on pages SGM-1 to SGM-4 of this circular; |
| “Share(s)” | ordinary share(s) of the Company; |
| “Shareholder(s)” | shareholder(s) of the Company; |
| “Specific Mandate” | the specific mandate proposed to be sought from the Independent Shareholders at the SGM for the allotment and issue of the Capitalisation Shares; |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited; and |
| “%” | per cent. |

LETTER FROM THE BOARD



GOME RETAIL HOLDINGS LIMITED

國美零售控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 493)

Executive Directors:

Mr. Zou Xiao Chun
Ms. Huang Xiu Hong

Non-executive Directors:

Mr. Zhang Da Zhong
Ms. Dong Xiao Hong

Independent Non-executive Directors:

Mr. Lee Kong Wai, Conway
Ms. Liu Hong Yu
Mr. Wang Gao

Registered Office:

Cumberland House
7th Floor
1 Victoria Street
Hamilton HM11
Bermuda

Head office:

Suite 2915, 29th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

10 March 2023

To the Shareholders

Dear Sir or Madam

**(1) CONNECTED TRANSACTION AND ISSUE OF NEW SHARES
UNDER SPECIFIC MANDATE: DEBT CAPITALISATION;
(2) PROPOSED REFRESHMENT OF GENERAL MANDATE;
AND
(3) NOTICE OF SGM**

INTRODUCTION

Reference is made to the announcement of the Company dated 18 January 2023 in relation to, among others, (i) the Agreement and the transactions contemplated thereunder; and (ii) the Proposed Refreshment of General Mandate. The purpose of this circular is to provide you with, among other things, (i) further information on the Agreement and the transactions contemplated thereunder; (ii) further information on the Proposed Refreshment of General

LETTER FROM THE BOARD

Mandate; (iii) the recommendation from the Independent Board Committee to the Independent Shareholders in relation to the Agreement and the transactions contemplated thereunder and the Proposed Refreshment of General Mandate; (iv) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Agreement and the transactions contemplated thereunder and the Proposed Refreshment of General Mandate; and (v) the notice of the SGM.

(1) ISSUE OF NEW SHARES UNDER SPECIFIC MANDATE: DEBT CAPITALISATION

On 18 January 2023 (after trading hours), the Company, the First Creditor and the Second Creditor entered into the Agreement in relation to the Debt Capitalisation. The salient terms of the Agreement are summarised below:

Debt Capitalisation

The Company is in debt to the First Creditor and the Second Creditor in the sum of HK\$500 million and HK\$280 million, respectively for outstanding loans as disclosed in the announcements of the Company dated 8 December 2022, 14 December 2022, 22 December 2022, 30 December 2022 and 6 January 2023, respectively.

Details of such loans are as follows:

| Creditor | Amount | Borrowing Date | Term | Interest Rate | Maturity Date |
|----------------------------|------------------------|------------------|---|---------------|---------------------|
| The First Creditor | HK\$150 million | 8 December 2022 | Initial term of six months ⁽¹⁾ | Interest-free | 8 June 2023 |
| | HK\$200 million | 14 December 2022 | | | 14 June 2023 |
| | HK\$150 million | 22 December 2022 | | | 22 June 2023 |
| <i>Total</i> | <i>HK\$500 million</i> | | | | |
| The Second Creditor | HK\$130 million | 30 December 2022 | Initial term of not more than six months ⁽¹⁾ | Interest-free | Repayment on demand |
| | HK\$150 million | 6 January 2023 | | | |
| <i>Total</i> | <i>HK\$280 million</i> | | | | |

Note:

(1) The initial term may be extended by the parties in writing prior to the expiry.

In addition, the Company is in debt to the Second Creditor in the sum of approximately RMB119.27 million (equivalent to approximately HK\$137.6 million, calculated at a rate of RMB1.00: HK\$1.1537) for payments made to suppliers on behalf of the Group during the period from May to December 2022.

The Company proposed to issue to the First Creditor and the Second Creditor 4,347,826,000 and 3,632,713,000 Capitalisation Shares, respectively at the Issue Price as full settlement of the aforementioned debt owed to the Creditors.

LETTER FROM THE BOARD

Capitalisation Shares

An aggregate of 7,980,539,000 new Shares are proposed to be issued under the Debt Capitalisation. The Capitalisation Shares represent approximately 20.06% of the issued share capital of the Company as at the Latest Practicable Date and approximately 16.71% of the issued share capital of the Company as enlarged by the issue of the Capitalisation Shares.

Issue Price

The Issue Price of HK\$0.115 per Capitalisation Share was arrived at after arm's length negotiation between the Creditors and the Company with reference to the prevailing market price of the Shares.

The Issue Price represents:

- (i) a discount of approximately 7.26% to the closing price of HK\$0.124 per Share as quoted on the Stock Exchange on 18 January 2023, the date of the Agreement;
- (ii) a discount of approximately 7.85% to the average closing price of HK\$0.1248 per Share as quoted on the Stock Exchange for the last five trading days up to and including the Last Trading Day; and
- (iii) a discount of approximately 18.44% over the closing price of HK\$0.141 per Share quoted on the Stock Exchange on the Latest Practicable Date.

Given that the Issue Price was set with reference to the market price of the Shares, the Directors (including the independent non-executive Directors, after considering the advice from the Independent Financial Adviser) consider that the Issue Price is fair and reasonable having taken into account factors including (i) the historical Share price performance during the two years prior to the date of the Agreement which indicated a declining trend; (ii) the Issue Price being within the range of the lowest and highest closing price during such period; and (iii) the relatively low trading liquidity and trading volume of the Shares during majority of such period (save for the period from November 2022 and up to the Latest Practicable Date), which may possess difficulties for the Company to pursue other financing alternatives when considering fundraising exercises.

LETTER FROM THE BOARD

The Capitalisation Shares have a nominal value of approximately HK\$199,513,000 and a market value of approximately HK\$989,587,000, based on the closing price of HK\$0.124 per Share on 18 January 2023, the date of the Agreement. After deducting expenses relating to the Debt Capitalisation, the net price per Capitalisation Share is approximately HK\$0.115.

Conditions

The issue of the Capitalisation Shares is conditional upon (i) the passing of the resolution(s) by the Board to approve the Agreement and the transactions contemplated thereunder; (ii) the compliance with all disclosure requirements pursuant to Chapter 14A of the Listing Rules by the Company in respect of the Agreement and the transactions contemplated thereunder, and having obtained the Independent Shareholders' approval at the SGM; and (iii) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Capitalisation Shares.

Completion of the Debt Capitalisation shall take place on the third Business Day after fulfilment of the conditions or any other date as agreed by the parties to the Agreement. If the conditions to the Debt Capitalisation are not fulfilled on or before 31 March 2023 (or such later date as may be agreed between the parties), the Agreement will lapse and terminate and the debt owed to the Creditors shall remain outstanding and repayable by the Company.

The Specific Mandate

The Capitalisation Shares will be allotted and issued pursuant to the Specific Mandate proposed to be sought from the Independent Shareholders at the SGM.

An application will be made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Capitalisation Shares.

Ranking of the Capitalisation Shares

The Capitalisation Shares, when issued, will rank pari passu in all respects with the Shares in issue on the date of the issue of the Capitalisation Shares, including the right to any dividends or distribution declared on or after the date of such issue. The Capitalisation Shares are freely transferrable and is not subject to any lock-up on subsequent transfer.

Shareholding of the Company

Assuming there will be no change to the issued share capital of the Company between the date of the Agreement and completion of the Debt Capitalisation, Mr. Wong's shareholding in the Company will increase from approximately 10.74% to approximately 25.66% of the total issued Shares. Details of the effect on the shareholding structure of the Company as a result of the Debt Capitalisation is set out below.

LETTER FROM THE BOARD

| Shareholders | Shareholding as at the Latest Practicable Date | | Shareholding after completion of the Debt Capitalisation | |
|--|--|-------------------|--|-------------------|
| | Shares | % of shareholding | Shares | % of shareholding |
| The First Creditor ⁽¹⁾ | 2,006,938 | 0.01% | 4,349,832,938 | 9.11% |
| The Second Creditor ⁽¹⁾ | 2,661,182,000 | 6.69% | 6,293,895,000 | 13.18% |
| Mr. Wong and his associates ⁽²⁾ | 1,607,606,664 ⁽³⁾ | 4.04% | 1,607,606,664 ⁽³⁾ | 3.37% |
| <i>Sub-total</i> | <i>4,270,795,602</i> | <i>10.74%</i> | <i>12,251,334,602</i> | <i>25.66%</i> |
| Trans Asia Inter Capital Limited | 4,062,856,000 | 10.21% | 4,062,856,000 | 8.51% |
| Other public shareholders | 31,448,248,597 | 79.05% | 31,448,248,597 | 65.83% |
| Total | 39,781,900,199 | 100.00% | 47,762,439,199 | 100.00% |

Notes:

- (1) Both the First Creditor and the Second Creditor are companies wholly-owned by Mr. Wong.
- (2) Other than the First Creditor and the Second Creditor.
- (3) Of these 1,607,606,664 Shares, 246,706,664 Shares are held by Smart Captain Holdings Limited, 160,000,000 Shares are held by Hillwood Assets Management Limited, 1,200,000,000 Shares are held by Element Assets Management Limited and 900,000 Shares are held by Ms. Du Juan, the spouse of Mr. Wong. All the companies mentioned above are wholly owned by Mr. Wong.

Capital-raising activities in the past 12 months

Save for the following, the Company has not conducted any equity fund raising activities during the twelve-month period immediately preceding the Latest Practicable Date:

| Date of announcement | Event | Net proceeds | Intended use of proceeds | Proceeds utilised as at the Latest Practicable Date |
|------------------------------|---------------------|----------------------------|--|---|
| 28 June 2022 and 6 July 2022 | Top-up placing | HK\$776,460,000 | (i) Repayment of debt; (ii) Expansion of online and offline dual-platform business; and (iii) General working capital purposes | HK\$776,460,000 |
| 2 January 2023 | Debt capitalisation | No cash proceeds generated | To settle the outstanding debt owed to the creditor | Outstanding debt settled |

LETTER FROM THE BOARD

Reasons for the Debt Capitalisation

The Company is in debt to the Creditors in the aggregate amount of HK\$780 million and approximately RMB119.27 million for outstanding loans. While the outstanding loans are interest free and unsecured, there is no guarantee that the Creditors will be willing to extend the loans upon maturity and in the event that the loans were not extended, the Company will be required to honour its repayment obligation, the relevant maturity dates of the loans owed to the First Creditor and the Second Creditor are approximately four (4) months away from the Latest Practicable Date and repayment on demand, respectively. As disclosed in the 2022 interim report of the Company, apart from the outstanding debt owed to the Creditors, the Company, as at 30 June 2022, had loans of approximately RMB24,775.0 million which would become due within one year; whereas the cash and cash equivalents position of the Group stood at approximately RMB2,409.3 million as at 30 June 2022, which is totally insufficient for the Company to meet its debt obligations.

The Company has also considered various alternative financing methods apart from the Debt Capitalisation before entering into the Agreement, including but not limited to debt financing and other ways of equity financing, namely rights issue, open offer or placement of new Shares to independent investors. However, the Company considers that (i) in respect of debt financing, it would result in substantial additional interest burden on the Group, which would be detrimental to the financial performance, financial position and debt to total equity ratio especially under the existing tightened financing environment; (ii) in respect of rights issue or open offer, the subscription price would have to be set at a deep discount to the prevailing market price of the Shares so as to attract subscription by potential investors or existing Shareholders. In addition, rights issue or open offer of new Shares may also subject to underwriting uncertainty and market risks. They also tend to need relatively lengthy documentation work and higher transaction costs such as underwriting commission and associated documentation and other professional fees; and (iii) for placing of new Shares to independent investors, it is difficult for a placing agent to seek independent third party investors to subscribe new Shares without imposing a relatively larger discount as compared with the Issue Price. Accordingly, the Directors consider that the Debt Capitalisation is an appropriate financing option for the Group as compared with other financing alternative.

Therefore, the Company considers that the Debt Capitalisation will enable the Group to settle the outstanding debt owed to the Creditors without utilising the existing financial resources of the Group and imposing any substantial cash outflow so as to release the liquidity and working capital pressure of the Company, and the Company will be able to reduce the debt to total equity ratio and strengthen the financial position of the Group.

For the reason above, the Directors (including the independent non-executive Directors, after considering the advice from the Independent Financial Adviser) consider that the Debt Capitalisation is in the interest of the Company and its Shareholders as a whole.

As the Capitalisation Shares will be issued to settle the outstanding debt owed to the Creditors, no cash proceeds will be generated through the issue.

LETTER FROM THE BOARD

After completion of the Debt Capitalisation, the Group will still have other outstanding overdue loans. The Company is in active discussions with lenders on refinancing, or the extension of repayment term.

Information on the parties

The Company

The principal activities of the Group are to provide a full range of products and services for daily life, including household appliances, food and beverages, clothing, shoes and bags, household decoration, daily necessities, maternity and baby toys, cosmetics and personal cares, etc., and provides home-delivery services to consumers through professionals. The business strategy centered on entertainment, low price, service and technology meets the full range of consumption and service needs of household users, so that every household can obtain better products and services with lower prices.

The First Creditor

The First Creditor is a company incorporated in British Virgin Islands and wholly-owned by Mr. Wong. It is principally engaged in investment holding business.

The Second Creditor

The Second Creditor is a company incorporated in Hong Kong and wholly-owned by Mr. Wong. It is principally engaged in investment holding business.

Listing Rules implications

As at the Latest Practicable Date, Mr. Wong is interested in approximately 10.74% of the issued Shares. Accordingly, each of the Creditors (wholly-owned by Mr. Wong) is an associate of Mr. Wong and a connected person of the Company under Chapter 14A of the Listing Rules. Hence, the Debt Capitalisation constitutes a connected transaction of the Company under the Listing Rules and is subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

(2) PROPOSED REFRESHMENT OF GENERAL MANDATE

The Board also proposes to refresh the Existing General Mandate for the Directors to allot, issue and deal with new Shares up to 20% of the issued share capital of the Company as at the date of passing of the relevant resolution at the SGM.

LETTER FROM THE BOARD

Existing General Mandate

At the annual general meeting of the Company held on 27 May 2022, the Shareholders approved, among other things, the grant of the Existing General Mandate which authorised the Directors to allot, issue and deal with not more than 6,751,308,839 new Shares, being 20% of the issued share capital of the Company of 33,756,544,199 Shares as at the date of the annual general meeting.

Proposed Refreshment of General Mandate

Subject to the Independent Shareholders' approval of the Proposed Refreshment of General Mandate, and assuming that no other Shares will be issued and/or repurchased by the Company on or prior to the date of the SGM, the Shares in issue as at the date of the SGM would be 39,781,900,199 Shares, which means that under the Proposed Refreshment of General Mandate, the Directors would be authorised to allot, issue and deal with not more than 7,956,380,039 new Shares, representing 20% of the Shares in issue as at the Latest Practicable Date.

Save for the share options granted under the share option scheme of the Company, as at the Latest Practicable Date, the Company has no outstanding derivatives, options, warrants and conversion rights and other similar rights which are convertible or exchangeable into Shares.

The Proposed Refreshment of General Mandate will, if granted, expire at the earliest of: (i) the conclusion of the next annual general meeting of the Company; (ii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable laws and regulations of the Cayman Islands to be held; or (iii) the date on which the authority set out in the resolution for the approval of the Proposed Refreshment of General Mandate is revoked or varied by the passing of an ordinary resolution of the Shareholders in general meeting.

Reasons for the Proposed Refreshment of General Mandate

As at the Latest Practicable Date, since the grant of the Existing General Mandate, 6,025,356,000 Shares have been issued under such mandate.

On 30 June 2022, a total of 1,962,500,000 new Shares have been successfully placed at the placing price of HK\$0.40 per Share to not less than six independent placees pursuant to the terms and conditions of the placing and subscription agreement dated 28 June 2022 entered into by the Company. For details, please refer to the announcements of the Company dated 28 June 2022 and 6 July 2022.

LETTER FROM THE BOARD

On 9 January 2023, the Company issued 4,062,856,000 new Shares to Trans Asia Inter Capital Limited, a then creditor of the Company, at HK\$0.1023 per Share pursuant to the terms and conditions of the agreement dated 30 December 2022 entered into between the Company and Trans Asia Inter Capital Limited in respect of the capitalisation of the debt owed by the Group to Trans Asia Inter Capital Limited. For details, please refer to the announcement of the Company dated 2 January 2023.

The allotment and issuance of a total of 6,025,356,000 new Shares as aforementioned utilised approximately 89% of the total number of Shares to be allotted and issued under the Existing General Mandate and 725,952,839 Shares may be further issued under the Existing General Mandate.

As the Existing General Mandate has been almost fully utilised and the next annual general meeting of the Company is expected to be held in June 2023, the Proposed Refreshment of General Mandate will provide flexibility for the Company to issue new Shares before the forthcoming annual general meeting. While the Company has not formulated any concrete plan for raising capital or capitalisation of debts by issuing new Shares under the Proposed Refreshment of General Mandate, the Proposed Refreshment of General Mandate will enable the Company to capture better timing for fund raising before the next annual general meeting.

The Proposed Refreshment of General Mandate would enhance the financial flexibility of the Group to raise the necessary financing to make timely decision in order to promptly respond to suitable investment opportunities which are favourable to the Group, in particular on new business opportunities that could generate positive income to the Group in order to turnaround its financial performance, as it was in a loss-making position for the last five financial years. In addition, if the Existing General Mandate is refreshed, the Group will be in a better bargaining position during the course of negotiation of potential business opportunities or investments. Should the negotiation of the Company with respective institutions come to fruition in the near future, the Company will be able to enter into formal agreement with the relevant institutions in a timely manner with the refreshed general mandate. Having said that, as at the Latest Practicable Date, the Group is not in negotiation (whether concluded or not) in respect of any issue of new Shares which will utilise the refreshed general mandate.

Having considered the above reasons, the Directors (including the independent non-executive Directors, after considering the advice from the Independent Financial Adviser) consider that the Proposed Refreshment of General Mandate is in the interests of the Company and the Shareholders as a whole.

Listing Rules implications

As the Proposed Refreshment of General Mandate is to be proposed to the Shareholders prior to the next annual general meeting of the Company, pursuant to Rule 13.36(4) of the Listing Rules, this proposal is subject to the Independent Shareholders' approval by way of an ordinary resolution at the SGM.

LETTER FROM THE BOARD

INDEPENDENT BOARD COMMITTEE

Pursuant to the Listing Rules, the Independent Board Committee (comprising all the independent non-executive Directors namely Mr. Lee Kong Wai, Conway, Ms. Liu Hong Yu and Mr. Wang Gao) has been formed to advise the Independent Shareholders on (i) the Agreement and the Debt Capitalisation; and (ii) the Proposed Refreshment of General Mandate.

INDEPENDENT FINANCIAL ADVISER

Opus Capital has been appointed with the approval of the Independent Board Committee as the Independent Financial Adviser to advise the Independent Board Committees and the Independent Shareholders in connection with (i) the Agreement and the Debt Capitalisation; and (ii) the Proposed Refreshment of General Mandate and to make recommendations on voting.

GENERAL

The SGM will be held to consider and, if thought fit, approve, among others, (i) the Agreement and the transactions contemplated thereunder (including the grant of the Specific Mandate); and (ii) the Proposed Refreshment of General Mandate.

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of shareholders at a general meeting must be taken by poll, except where the chairman of the SGM, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. Therefore, all resolutions proposed at the SGM shall be voted by poll.

Pursuant to Rule 14A.36 of the Listing Rules, any shareholder who has a material interest in the transaction must abstain from voting on the resolution. As at the Latest Practicable Date, Mr. Wong is interested in 4,270,795,602 Shares, representing approximately 10.74% of the issued share capital of the Company. Accordingly, Mr. Wong and his associates (including the Creditors) shall abstain from voting on the proposed resolutions approving the Agreement and the transactions contemplated thereunder at the SGM.

Further, according to Rule 13.36(4) of the Listing Rules, any controlling shareholders and their associates or, where there are no controlling shareholders, Directors (excluding independent non-executive Directors) and the chief executive of the Company and their respective associates shall abstain from voting in favour of the resolution to approve any refreshments of the general mandate. As at the Latest Practicable Date, to the best knowledge, information and belief of the Directors having made all reasonable enquiries, the Company has no controlling shareholders. As a result, Ms. Huang Xiu Hong and Mr. Zou Xiao Chun, both being executive Directors, and Mr. Zhang Da Zhong and Ms. Dong Xiao Hong, both being non-executive Directors, together with their respective associates, are required to abstain from voting in favour of the ordinary resolution regarding the Proposed Refreshment of General Mandate at the SGM. As at the Latest Practicable Date, Ms. Huang Xiu Hong is interested in

LETTER FROM THE BOARD

10,000,000 Shares, representing approximately 0.03% of the issued share capital of the Company; and each of Mr. Zou Xiao Chun, Mr. Zhang Da Zhong and Ms. Dong Xiao Hong is not interested in any Shares. Whereas Mr. Wong (who is the brother of Ms. Huang Xiu Hong and hence her associate), through companies wholly-owned by him namely, GOME Management Limited which holds 2,661,182,000 Shares, Shinning Crown Holdings Inc. which holds 2,006,938 Shares, Smart Captain Holdings Limited which holds 246,706,664 Shares, Hillwood Assets Management Limited which holds 160,000,000 Shares and Element Assets Management Limited which holds 1,200,000,000 Shares, holds 4,269,895,602 Shares, representing approximately 10.73% of the issued share capital of the Company. Accordingly, Ms. Huang Xiu Hong, Mr. Wong and the aforementioned companies wholly-owned by him shall abstain from voting on the proposed resolutions approving the Proposed Refreshment of General Mandate pursuant to Rule 13.36(4) of the Listing Rules.

Save for the above, to the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, none of the other Shareholders is required to abstain from voting on the resolutions in respect of (i) the Agreement and the transactions contemplated thereunder (including the grant of the Specific Mandate); and (ii) the Proposed Refreshment of General Mandate to be proposed at the SGM.

An announcement on the poll results will be published by the Company after the SGM in the manner prescribed under Rule 13.39(5) of the Listing Rules.

At the Board meeting held to approve the Agreement, each of Mr. Zou Xiao Chun (who is a Director originally nominated by Mr. Wong's associate), Ms. Huang Xiu Hong (who is the sister of Mr. Wong) and Ms. Dong Xiao Hong (who holds senior management roles in various companies controlled by Mr. Wong and/or its associate) is considered to be interested in the transactions contemplated under the Agreement, and has abstained from voting at the Board meeting in respect of the resolutions proposed to approve the Agreement.

Save as disclosed above, none of the Directors has a material interest in the Agreement and the Debt Capitalisation or is required to abstain from voting on the Board resolutions for considering and approving the Agreement and the Debt Capitalisation pursuant to the Listing Rules and/or the bye-laws of the Company. The Board has approved the resolution for considering and approving the Agreement and the Debt Capitalisation, subject to the Independent Shareholders' approval at the SGM.

FORM OF PROXY

A form of proxy for the SGM is enclosed herewith. Whether or not you intend to attend and vote at the SGM in person, you are requested to complete the form of proxy and return it to the Company's branch share registrar in Hong Kong, Tricor Abacus Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong in accordance with the instructions printed

LETTER FROM THE BOARD

thereon as soon as practicable but in any event no later than 48 hours before the time appointed for holding the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or at any adjournment thereof should you so wish.

RECOMMENDATIONS

You are advised to read carefully the letter from the Independent Board Committees of this circular. The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser, consider that (i) the terms of the Agreement and the transactions contemplated thereunder (including the grant of the Specific Mandate) are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole; and (ii) the Proposed Refreshment of General Mandate is in the interests of the Company and the Shareholders as a whole and is fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, the Independent Board Committees recommend the Independent Shareholders to vote in favour of the resolutions to approve (i) the Agreement and the transactions contemplated thereunder (including the grant of the Specific Mandate); and (ii) the Proposed Refreshment of General Mandate at the SGM.

The Directors (including the independent non-executive Directors, after considering the advice from the Independent Financial Adviser) consider that (i) the terms of the Agreement and the transactions contemplated thereunder (including the grant of the Specific Mandate) are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole; and (ii) the Proposed Refreshment of General Mandate is in the interests of the Company and the Shareholders as a whole and is fair and reasonable so far as the Independent Shareholders are concerned, and recommends the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the SGM.

GENERAL INFORMATION

Your attention is drawn to the appendix headed “General Information” to this circular.

Yours faithfully
By order of the Board
GOME Retail Holdings Limited
ZHANG Da Zhong
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the text of the letter of recommendation, prepared for the purpose of incorporation in this circular, from the Independent Board Committee to the Independent Shareholders in respect of approving the (i) Agreement and the transactions contemplated thereunder (including the grant of the Specific Mandate); and (ii) the Proposed Refreshment of General Mandate.



GOME RETAIL HOLDINGS LIMITED

國美零售控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 493)

10 March 2023

To the Independent Shareholders

Dear Sir or Madam,

**(1) CONNECTED TRANSACTION AND ISSUE OF NEW SHARES
UNDER SPECIFIC MANDATE: DEBT CAPITALISATION;
AND
(2) PROPOSED REFRESHMENT OF GENERAL MANDATE**

We refer to the circular dated 10 March 2023 (the “**Circular**”) issued by the Company to the Shareholders of which this letter forms part. Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings as defined in the Circular.

We have been appointed by the Board as the Independent Board Committee to advise the Independent Shareholders as to whether, in our opinion, (i) the terms of the Agreement and the transactions contemplated thereunder (including the grant of the Specific Mandate) are fair and reasonable, on normal commercial terms or better and in the ordinary and usual course of business of the Group and in the interests of the Group and the Shareholders as a whole; and (ii) the terms of the Proposed Refreshment of General Mandate is in the interests of the Company and the Shareholders as a whole and whether the terms of the Proposed Refreshment of General Mandate are fair and reasonable so far as the Independent Shareholders are concerned, and how the Independent Shareholders should vote at the SGM, after taking into account the recommendation of the Independent Financial Adviser.

We wish to draw your attention to the letter from the Independent Financial Adviser as set out on pages 18 to 52 of this circular.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having considered the terms of the Agreement, the terms of the Proposed Refreshment of General Mandate and the principal factors and reasons considered by and the opinion of the Independent Financial Adviser as set out in its letter of advice, we consider that (i) the terms of the Agreement and the transactions contemplated thereunder (including the grant of the Specific Mandate) are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole; and (ii) the Proposed Refreshment of General Mandate is in the interests of the Company and the Shareholders as a whole and the terms of which are fair and reasonable so far as the Company and the Independent Shareholders are concerned. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolutions to approve (i) the Agreement and the transactions contemplated thereunder (including the grant of the Specific Mandate); and (ii) the Proposed Refreshment of General Mandate at the SGM.

Yours faithfully

For and on behalf of the
the Independent Board Committee

Mr. Lee Kong Wai, Conway

Independent

Non-executive Director

Ms. Liu Hong Yu

Independent

Non-executive Director

Mr. Wang Gao

Independent

Non-executive Director

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of a letter of advice from Opus Capital to the Independent Board Committee and the Independent Shareholders in respect of (i) the Agreement and the Debt Capitalisation; and (ii) the Proposed Refreshment of General Mandate, which has been prepared for the purpose of inclusion in this circular.



18th Floor, Fung House
19-20 Connaught Road Central
Central, Hong Kong

10 March 2023

To: The Independent Board Committee and the Independent Shareholders of GOME Retail Holdings Limited

Dear Sirs or Madams,

**(1) CONNECTED TRANSACTION AND ISSUE OF NEW SHARES
UNDER SPECIFIC MANDATE: DEBT CAPITALISATION
AND
(2) PROPOSED REFRESHMENT OF GENERAL MANDATE**

INTRODUCTION

We refer to our engagement as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of (i) the Agreement and the Debt Capitalisation; and (ii) the Proposed Refreshment of General Mandate, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company to the Shareholders dated 10 March 2023 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless otherwise defined or the context requires otherwise.

As stated in the Letter from the Board, on 18 January 2023 (after trading hours), the Company entered into the Agreement with the First Creditor and the Second Creditor (i.e. the Creditors) pursuant to which the Company conditionally agreed to capitalise the debt owed by the Group to the Creditors and the Creditors conditionally agreed to subscribe and the Company conditionally agreed to issue to the First Creditor and the Second Creditor 4,347,826,000 and 3,632,713,000 new Shares, respectively, at the Issue Price of HK\$0.115 per Share.

The Capitalisation Shares represent approximately 20.06% of the existing issued share capital of the Company and approximately 16.71% of the Company’s issued share capital as enlarged by the issue of the Capitalisation Shares. The Capitalisation Shares will be allotted and issued pursuant to the Specific Mandate proposed to be sought at the SGM. Application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Capitalisation Shares.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As set out in the Letter from the Board, the Board also proposes to refresh the Existing General Mandate for the Directors to allot, issue and deal with new Shares up to 20% of the issued share capital of the Company as at the date of passing of the relevant resolution at the SGM.

As at the Latest Practicable Date, Mr. Wong is interested in 4,270,795,602 Shares, representing approximately 10.74% of the issued share capital of the Company. Accordingly, each of the Creditors (wholly-owned by Mr. Wong) is an associate of Mr. Wong and a connected person of the Company under Chapter 14A of the Listing Rules. Hence, the Debt Capitalisation constitutes a connected transaction of the Company under the Listing Rules and is subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As the Proposed Refreshment of General Mandate is to be proposed to the Shareholders prior to the next annual general meeting of the Company, pursuant to Rule 13.36(4) of the Listing Rules, this proposal is subject to the Independent Shareholders' approval by way of an ordinary resolution at the SGM.

Pursuant to Rule 14A.36 of the Listing Rules, any shareholder who has a material interest in the transaction must abstain from voting on the resolution. As at the Latest Practicable Date, Mr. Wong is interested in 4,270,795,602 Shares, representing approximately 10.74% of the issued share capital of the Company. Accordingly, Mr. Wong and his associates (including the Creditors) shall abstain from voting on the proposed resolutions approving the Agreement and the transactions contemplated thereunder at the SGM.

Further, according to Rule 13.36(4) of the Listing Rules, any controlling shareholders and their associates or, where there are no controlling shareholders, Directors (excluding independent non-executive Directors) and the chief executive of the Company and their respective associates shall abstain from voting in favour of the resolution to approve any refreshments of the general mandate. As at the Latest Practicable Date, to the best knowledge, information and belief of the Directors having made all reasonable enquiries, the Company has no controlling shareholders. As a result, Ms. Huang Xiu Hong and Mr. Zou Xiao Chun, both being executive Directors and Mr. Zhang Da Zhong and Ms. Dong Xiao Hong, both being non-executive Directors, together with their respective associates, are required to abstain from voting in favour of the ordinary resolution regarding the Proposed Refreshment of General Mandate at the SGM. As at the Latest Practicable Date, Ms. Huang Xiu Hong is interested in 10,000,000 Shares, representing approximately 0.03% of the issued share capital of the Company; and each of Mr. Zou Xiao Chun, Mr. Zhang Da Zhong and Ms. Dong Xiao Hong is not interested in any Shares. Whereas Mr. Wong (who is the brother of Ms. Huang and hence her associate), through companies wholly-owned by him namely, GOME Management Limited which holds 2,661,182,000 Shares, Shinning Crown Holdings Inc. which holds 2,006,938 Shares, Smart Captain Holdings Limited which holds 246,706,664 Shares, Hillwood Assets Management Limited which holds 160,000,000 Shares and Element Assets Management Limited which holds 1,200,000,000 Shares, holds 4,269,895,602 Shares, representing approximately 10.73% of the issued share capital of the Company. Accordingly, Ms. Huang Xiu

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Hong, Mr. Wong and the aforementioned companies wholly-owned by him shall abstain from voting on the proposed resolutions approving the Proposed Refreshment of General Mandate pursuant to Rule 13.36(4) of the Listing Rules.

Save for the above, to the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, none of the other Shareholders is required to abstain from voting on the resolutions in respect of (i) the Agreement and the transactions contemplated thereunder (including the grant of the Specific Mandate); and (ii) the Proposed Refreshment of General Mandate to be proposed at the SGM.

At the Board meeting held to approve the Agreement, each of Mr. Zou Xiao Chun (who is a Director originally nominated by Mr. Wong's associate), Ms. Huang Xiu Hong (who is the sister of Mr. Wong) and Ms. Dong Xiao Hong (who holds senior management roles in various companies controlled by Mr. Wong and/or its associate) is considered to be interested in the transactions contemplated thereunder under the Agreement, and has abstained from voting at the Board meeting in respect of the resolutions proposed to approve the Agreement.

Save as disclosed, none of the Directors has a material interest in the Agreement and the Debt Capitalisation or is required to abstain from voting on the Board resolutions for considering and approving the Agreement and the Debt Capitalisation pursuant to the Listing Rules and/or the bye-laws of the Company. The Board has approved the resolution for considering and approving the Agreement and the Debt Capitalisation, subject to the Independent Shareholders' approval at the SGM.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Lee Kong Wai, Conway, Ms. Liu Hong Yu and Mr. Wang Gao, has been established to advise and make recommendation to the Independent Shareholders as to: (i) whether the terms of the Agreement and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned, on normal commercial terms and in the interests of the Company and the Shareholders as a whole; (ii) whether the entering into of the Agreement is in the ordinary and usual course of business of the Group; (iii) whether the terms of the Refreshed General Mandate are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole; and (iv) how the Independent Shareholders should vote on the resolutions in relation to the Agreement and the transactions contemplated thereunder and the Refreshed General Mandate. Our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders has been approved by the Independent Board Committee in this regard.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

OUR INDEPENDENCE

We were appointed as the independent financial adviser to advise the independent board committee and the independent shareholders of the Company in respect of the: (a) (i) major and connected transaction in relation to the leasing agreement; (ii) issue of shares under specific mandate; (iii) connected transaction in relation to disposal of a subsidiary; and (iv) application for whitewash waiver; and (b) continuing connected transactions. Details of which are set out in the circular of the Company dated 13 August 2021 and 7 January 2022 respectively (the “**Past Appointments**”). The Past Appointments are independent to our current appointment in relation to (i) the Agreement and the transactions contemplated thereunder; and (ii) the Proposed Refreshment of General Mandate.

As at the Latest Practicable Date, saved for aforementioned, we did not have any relationship with, or interest in, the Group, Mr. Wong, or other parties that could reasonably be regarded as relevant to our independence. During the two years immediately prior to the date of this appointment, save for the Past Appointments, we have not: (i) acted in the capacity as financial adviser or as an independent financial adviser to the Company; (ii) provided any services to the Company; or (iii) had any relationship with the Company. Apart from normal independent financial advisory fees paid or payable to us in connection with the Past Appointments and the current appointment, no arrangements exist whereby we had received or will receive any other fees or benefits from the Group, Mr. Wong, or any other parties that could reasonably be regarded as relevant to our independence. Accordingly, we consider ourselves independent pursuant to Rule 13.84 of the Listing Rules.

BASIS OF OUR OPINION

In formulating our opinion and recommendation to the Independent Board Committee and the Independent Shareholders, we have reviewed, amongst other things:

- (i) the Company’s interim report (the “**2022 Interim Report**”) for the six months ended 30 June (“**1H**”) 2022;
- (ii) the Company’s annual report for the year ended 31 December (“**FY**”) 2021 (the “**2021 Annual Report**”);
- (iii) the Agreement dated 18 January 2023; and
- (iv) other information as set out in the Circular.

We have relied on the truth, accuracy and completeness of the statements, information, opinions and representations contained or referred to in the Circular and the information and representations made to us by the Company, the Directors and the management of the Group (collectively, the “**Management**”). We have assumed that all information and representations contained or referred to in the Circular and provided to us by the Management, for which they are solely and wholly responsible, are true, accurate and complete in all material respects and

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

not misleading or deceptive at the time when they were provided or made and will continue to be so up to the Latest Practicable Date. Shareholders will be notified of material changes as soon as possible, if any, to the information and representations provided and made to us after the Latest Practicable Date and up to and including the date of the SGM.

We have also assumed that all statements of belief, opinion, expectation and intention made by the Management in the Circular were reasonably made after due enquiries and careful consideration and there are no other facts not contained in the Circular, the omission of which make any such statement contained in the Circular misleading. We have no reason to suspect that any relevant information has been withheld, or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Management, which have been provided to us.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. However, we have not carried out any independent verification of the information provided by the Management, nor have we conducted any independent investigation into the business, financial conditions and affairs of the Group or its future prospects.

The Directors jointly and severally accept full responsibility for the accuracy of the information disclosed and confirm, having made all reasonable enquiries that to the best of their knowledge and belief, there are no other facts not contained in this letter, the omission of which would make any statement herein misleading.

This letter is issued to the Independent Board Committee and the Independent Shareholders solely in connection for their consideration of the terms of the Agreement and the Debt Capitalisation and the Proposed Refreshment of General Mandate, 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.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation to the Independent Board Committees and the Independent Shareholders in respect of the Agreement and the Debt Capitalisation and the Proposed Refreshment of General Mandate, we have taken into consideration, inter alia, the following principal factors and reasons:

I. ISSUE OF NEW SHARES UNDER SPECIFIC MANDATE: DEBT CAPITALISATION

1. Information of the Group

The Group is principally engaged in the operation and management of retail stores for electrical appliances, consumer electronic products and general merchandise, as well as a full category of online sales network in the People's Republic of China (the "PRC") through self-operated and platform models. For further details, please refer to the section headed "Information on the parties" in the Letter from the Board.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following table summarises the key financial information of the Group for FY2020, FY2021, 1H2021 and 1H2022 as extracted from the 2021 Annual Report and the 2022 Interim Report, respectively:

Table 1: Highlights of the financial results of the Group

| | Unaudited | | Audited | |
|--|-------------------|----------------|----------------|----------------|
| | 1H2022 | 1H2021 | FY2021 | FY2020 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Revenue | 12,109,334 | 26,039,905 | 46,483,804 | 44,119,113 |
| - <i>Sale of electrical appliances, consumer electronic products and general merchandise</i> | <i>11,999,851</i> | 26,039,905 | 46,483,804 | 44,119,113 |
| - <i>Product display services</i> | <i>109,483</i> | – | – | – |
| Gross profit | 2,087,521 | 3,131,852 | 5,506,910 | 4,550,384 |
| Finance costs | (876,157) | (1,013,908) | (1,945,890) | (1,966,040) |
| Loss attributable to owners of the parent | (2,965,788) | (1,974,042) | (4,402,037) | (6,993,816) |

Source: the 2021 Annual Report and 2022 Interim Report

FY2021 vs FY2020

The Group recorded a slight increase in the revenue of approximately 5.4%, from approximately RMB44,119.1 million for FY2020 to approximately RMB46,483.8 million for FY2021. As stated in the 2021 Annual Report, the overall revenue growth of the Group was mainly attributable to the gradual alleviation of the COVID-19 pandemic (“**Pandemic**”) in PRC and the launch of the stimulating policies in consumption by the PRC government. With the slight increase in revenue, gross profit has also registered an increase by approximately 21.0% from approximately RMB4,550.4 million for FY2020 to approximately RMB5,506.9 million for FY2021. In spite of the foregoing, the Group is still remained in a loss-making position, registered a loss attributable to the owners of the parent of approximately RMB4,402.0 million for FY2021, representing a reduction in loss by approximately 37.1% from a loss attributable to the owners of the parent of approximately RMB6,993.8 million for FY2020, which was also mainly attributable to the same factors as abovementioned in regards to the gradual alleviation of the Pandemic.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

1H2022 vs 1H2021

Albeit improving for the FY2021, the Group has recorded continuous unsatisfactory financial performance during 1H2022, the revenue of the Group was approximately RMB12,109.3 million for 1H2022, representing a significant decrease by approximately 53.5% from RMB26,039.9 million for 1H2021. According to the 2022 Interim Report, such drastic decrease in revenue was mainly attributable to the fact that major tier-1 cities were materially affected by the recurring outbreaks of the Pandemic in PRC, offline business was significantly disrupted by various lockdown and control measures at most of the regions across PRC. Furthermore, online business was also adversely affected in the same manner due to the disruptions of logistics service.

In addition, we understand from the Management that the domestic GDP in 1H2022, which was lower than the market expectations. In 1H2022, the total retail sales of social consumer goods decreased by approximately 0.7% year-on-year.

The Group's loss attributable to owners of the parent was approximately RMB2,965.8 million for 1H2022, representing a significant increase in loss making position by approximately 50.3% from approximately RMB1,974.0 million for 1H2021. Such substantial increase in loss making position was mainly in line with the reasons as discussed above pursuant to the significant decrease in revenue due to the disruption of the Pandemic.

In addition, with reference to the profit warning announcement of the Company dated 21 October 2022 (“**Profit Warning Announcement**”), as affected by the Pandemic, the consumer market environment has become more complex and volatile, which has posed more challenges to the retail industry, and the Group's businesses have also been significantly affected. As a result, based on the preliminary review of the latest management accounts of the Group, the accumulated sales revenue for the first three quarters of FY2022 has declined substantially by approximately 55.0% to 60.0% as compared with FY2021, the Group's results for FY2022 are therefore expected to decline significantly as compared with FY2021. In this regard, such decrease in revenue has resulted in loans payable by the Group to certain financial institutions becoming overdue, a total of approximately 55 million shares in Beijing Centergate Technologies (Holdings) Co., Limited* (北京中關村科技發展(控股)股份有限公司) (stock code: 000931.SZ) held by the Group were frozen. We understand from the Management that the Company has been actively negotiating with these financial institutions with a view to obtaining appropriate solutions. Furthermore, with further reference to the profit warning supplemental announcement of the Company dated 28 October 2022, it is noted that as a result of the unfavourable operating conditions disclosed in the Profit Warning Announcement, based on the operating data for the first three quarters of FY2022, the Management expects that the operating loss attributable to owners of the parent for the FY2022 will increase drastically by the range of approximately 35.0% to 65.0% as compared to FY2021. All of the above demonstrated the further deterioration in the financial performance of the Group can be anticipated going forward.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Set out below are highlights of the financial position of the Group as at 31 December 2021 and 30 June 2022, which have been extracted from the 2022 Interim Report.

Table 2: Highlights of the financial position of the Group

| | Unaudited | Audited |
|--|----------------------|--------------------------|
| | As at 30 June | As at 31 December |
| | 2022 | 2021 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Non-current assets | 49,419,795 | 50,122,140 |
| Current assets | 25,051,065 | 30,800,719 |
| - <i>Cash and cash equivalents</i> | 2,409,336 | 4,378,423 |
| Current liabilities | 50,068,274 | 52,149,798 |
| - <i>Interest-bearing bank and other borrowings</i> | 24,775,010 | 22,060,980 |
| Non-current liabilities | 8,499,528 | 11,188,179 |
| - <i>Interest-bearing bank and other borrowings</i> | 3,280,623 | 6,139,252 |
| Net current liabilities | 25,017,209 | 21,349,079 |
| Net asset value (“NAV”) attributable to owners of the parent | 20,227,839 | 21,604,483 |

Source: 2022 Interim Report

As at 30 June 2022, the Group had total assets and total liabilities of approximately RMB74,470.9 million and RMB58,567.8 million respectively, as compared to the respective total assets and total liabilities of approximately RMB80,922.9 million and RMB63,338.0 million as at 31 December 2021, registered a decrease of approximately 8.0% and 7.5% respectively. As a result of the combination of movements of total assets and total liabilities of the Group highlighted above, the NAV attributable to owners of the parent recorded a decrease of approximately 6.4% to approximately RMB20,227.8 million as at 30 June 2022.

The Group had cash and cash equivalents amounting to approximately RMB2,409.3 million as at 30 June 2022, representing a significant decrease of approximately 45.0% as compared to approximately RMB4,378.4 million as at 31 December 2021. The decrease in the cash and cash equivalents position was mainly due to the Group having repaid its borrowings during the 1H2022. In terms of net current liabilities, the Group held a balance of approximately RMB25,017.2 million as at 30 June 2022 which had ballooned from a balance of approximately RMB21,349.1 million as at 31 December 2021. Based on the above figures, we note that the Company is facing significant pressure on its working capital and liquidity position.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

2. Principal terms of the Agreement

On 18 January 2023 (after trading hours), the Company, the First Creditor and the Second Creditor entered into the Agreement in relation to the Debt Capitalisation. The salient terms of the Agreement are summarised below:

Debt Capitalisation

The Company is in debt to the First Creditor and the Second Creditor in the sum of HK\$500 million and HK\$280 million, respectively for outstanding loans as disclosed in the announcements of the Company dated 8 December 2022, 14 December 2022, 22 December 2022, 30 December 2022 and 6 January 2023, respectively.

Details of such loans are as follows:

| Creditor | Amount | Borrowing Date | Term | Interest Rate | Maturity Date |
|---------------------|------------------------|------------------|--|---------------|---------------------|
| The First Creditor | HK\$150 million | 8 December 2022 | Initial term of six months ^(Note 1) | Interest-free | 8 June 2023 |
| | HK\$200 million | 14 December 2022 | | | 14 June 2023 |
| | HK\$150 million | 22 December 2022 | | | 22 June 2023 |
| Total | HK\$500 million | | | | |
| The Second Creditor | HK\$130 million | 30 December 2022 | Initial term of not more than six months ^(Note 1) | Interest-free | Repayment on demand |
| | HK\$150 million | 6 January 2023 | | | |
| Total | HK\$280 million | | | | |

Note:

1. The initial term may be extended by the parties in writing prior to the expiry.

In addition, the Company is in debt to the Second Creditor in the sum of approximately RMB119.27 million (equivalent to approximately HK\$137.6 million, calculated at a rate of RMB1.00: HK\$1.1537) for payments made to suppliers on behalf of the Group during the period from May to December 2022.

The Company proposed to issue to the First Creditor and the Second Creditor 4,347,826,000 and 3,632,713,000 Capitalisation Shares, respectively, at the Issue Price as full settlement of the aforementioned debt owed to the Creditors.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Based on the above, the initial term of the outstanding loan is not more than six (6) months which may be extended by the parties in writing prior to the expiry. Albeit the outstanding loan is interest free and unsecured, it should be noted that: (i) there is no guarantee that the Creditors will be willing to extend the loan upon its maturity; (ii) in the event that the loan was not extended upon maturity, the Company will still be required to honour its repayment obligation, the relevant maturity dates of the loan owed to the First Creditor and the Second Creditor are approximately four (4) months away from the Latest Practicable Date and repayment on demand respectively. Based on the fact that the cash and cash equivalents of the Group only stood at RMB2,409.3 million as at 30 June 2022, the Total Outstanding Loan (as defined below), representing approximately HK\$917.6 million coupled with the interest bearing bank and other borrowings of approximately RMB24,775.0 million which would due within one year, such cash level is totally insufficient to honour the repayment obligation of the Company; (iii) if the outstanding loan was required to extend due to whatever reasons, there is a possibility that the Creditors may request to renegotiate the loan terms with the Company such as to charge an interest rate and/or to pledge additional collateral; and (iv) the Company has also conducted a similar debt capitalisation exercise with a then creditor, namely Trans Asia Inter Capital Limited who is an independent third party of the Company, to capitalise the debt (i.e. approximately HK\$415.6 million) owed by the Group to Trans Asia Inter Capital Limited pursuant to the agreement dated 30 December 2022, such exercise of which is also in line with the Debt Capitalisation, with the intention to ease the liquidity issue of the Group so as to enable the Group to settle the outstanding debt owed to its creditor and without utilising the existing financial resources of the Group.

Capitalisation Shares

An aggregate of 7,980,539,000 new Shares are proposed to be issued under the Debt Capitalisation. The Capitalisation Shares represent approximately 20.06% of the issued share capital of the Company as at the Latest Practicable Date and approximately 16.71% of the issued share capital of the Company as enlarged by the issue of the Capitalisation Shares.

Issue Price

The Issue Price of HK\$0.115 per Capitalisation Share was arrived at after arm's length negotiation between the Creditors and the Company with reference to the prevailing market price of the Shares.

The Issue Price represents:

- (i) a discount of 7.26% to the closing price of HK\$0.124 per Share as quoted on the Stock Exchange on 18 January 2023, the date of the Agreement;
- (ii) a discount of 7.85% to the average closing price of HK\$0.1248 per Share as quoted on the Stock Exchange for the last five trading days up to and including the Last Trading Day; and

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (iii) a discount of approximately 18.44% over the closing price of HK\$0.141 per Share quoted on the Stock Exchange on the Latest Practicable Date.

Given that the Issue Price was set with reference to the market price of the Shares, the Directors (including the independent non-executive Directors, after considering the advice of the Independent Financial Adviser) consider that the Issue Price is fair and reasonable having taken into account factors including (i) the historical Share price performance during the two years prior to the date of the Agreement which indicated a declining trend; (ii) the Issue Price being within the range of the lowest and highest closing price during such period; and (iii) the relatively low trading liquidity and trading volume of the Shares during majority of such period (save for the period from November 2022 and up to the Latest Practicable Date), our detailed analysis are set out in the subsection headed “Review on the trading liquidity of the Shares” below, which may possess difficulties for the Company to pursue other financing alternatives when considering fundraising exercises.

The Capitalisation Shares have a nominal value of approximately HK\$199,513,000 and a market value of approximately HK\$989,587,000, based on the closing price of HK\$0.124 per Share on 18 January 2023, the date of the Agreement. After deducting expenses relating to the Debt Capitalisation, the net price per Capitalisation Share is approximately HK\$0.115.

Conditions

The issue of the Capitalisation Shares is conditional upon (i) the passing of the resolution(s) by the Board to approve the Agreement and the transactions contemplated thereunder; (ii) the compliance with all disclosure requirements pursuant to Chapter 14A of the Listing Rules by the Company in respect of the Agreement and the transactions contemplated thereunder, and having obtained the Independent Shareholders’ approval at the SGM; and (iii) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Capitalisation Shares.

Completion of the Debt Capitalisation shall take place on the third Business Day after fulfilment of the conditions or any other date as agreed by the parties to the Agreement. If the conditions to the Debt Capitalisation are not fulfilled on or before 31 March 2023 (or such later date as may be agreed between the parties), the Agreement will lapse and terminate and the debt owed to the Creditors shall remain outstanding and repayable by the Company.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Specific Mandate

The Capitalisation Shares will be allotted and issued pursuant to the Specific Mandate proposed to be sought from the Independent Shareholders at the SGM.

An application will be made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Capitalisation Shares.

Ranking of the Capitalisation Shares

The Capitalisation Shares, when issued, will rank pari passu in all respects with the Shares in issue on the date of the issue of the Capitalisation Shares, including the right to any dividends or distribution declared on or after the date of such issue. The Capitalisation Shares are freely transferrable and is not subject to any lock-up on subsequent transfer.

For further details of the principal terms of the Subscription Agreement, please refer to section headed “(1) ISSUE OF NEW SHARES UNDER SPECIFIC MANDATE: DEBT CAPITALISATION” in the Letter from the Board.

3. Reasons for and benefits of the Debt Capitalisation

As stated in the Letter from the Board, the Company is in debt to the Creditors in the aggregate amount of HK\$780 million and approximately RMB119.27 million for outstanding loans. The Company has also considered various alternative financing methods apart from the Debt Capitalisation before entering into the Agreement, including but not limited to debt financing and other ways of equity financing, namely rights issue, open offer or placement of new Shares to independent investors. However, the Company considers that (i) in respect of debt financing, it would result in substantial additional interest burden on the Group, which would be detrimental to the financial performance, financial position and debt to total equity ratio especially under the existing tightened financing environment; (ii) in respect of rights issue or open offer, the subscription price would have to be set at a deep discount to the prevailing market price of the Shares so as to attract subscription by potential investors or existing Shareholders. In addition, rights issue or open offer of new Shares may also subject to underwriting uncertainty and market risks. They also tend to need relatively lengthy documentation work and higher transaction costs such as underwriting commission and associated documentation and other professional fees; and (iii) for placing of new Shares to independent investors, it is difficult for a placing agent to seek independent third party investors to subscribe new Shares without imposing a relatively larger discount as compared with the Issue Price, we have held discussion with the Management and obtained the relevant supporting documents in connection to the feasibility of engaging the Placing Agent (as defined below) to potentially undertake a placing exercise, details of which are set out in this section below. Accordingly, the Directors consider that the Debt Capitalisation is an appropriate financing option for the Group as compared with other financing alternative.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Therefore as stated in the Letter from the Board, the Company considers that the Debt Capitalisation will enable the Group to settle the outstanding debt owed to the Creditors without utilising the existing financial resources of the Group and imposing any substantial cash outflow so as to release the liquidity and working capital pressure of the Company, and the Company will be able to reduce the debt to total equity ratio and strengthen the financial position of the Group. As the Capitalisation Shares will be issued to settle the outstanding debt owed to the Creditors, no cash proceeds will be generated through the issue.

As at the date of the Agreement, the total principal amount under the outstanding loans to the Creditors amounted to approximately HK\$780.0 million and RMB119.27 million (“**Total Outstanding Loan**”), for illustration purpose only and based on the exchange rate of RMB1.00 to HK\$1.1537, the Total Outstanding Loan would amount to approximately HK\$917.6 million. The aggregate consideration for the allotment and issue of the Capitalisation Shares will be settled by way of set off against the outstanding debt owed to the Creditors at completion of the Debt Capitalisation. Upon completion of the Debt Capitalisation, the outstanding principal amount of the outstanding debt owed to the Creditors will be fully settled. It is considered that the Debt Capitalisation allows the Company to settle the outstanding debt owed to the Creditors without utilising the existing financial resources of the Group, and the Company is able to reduce the debt to total equity ratio and strengthen the financial position of the Group.

With reference to the 2022 Interim Report, apart from the outstanding debt owed to the Creditors, as at 30 June 2022, under the current portion of interest bearing bank and other borrowings, the Company had (a) secured bank loans and other loans of approximately RMB21,067.6 million, with interest rates ranging from approximately 0.05% to 8.35%; and (b) unsecured bank loans and bonds payable of approximately RMB3,707.4 million, with interest rates ranging from approximately 3.52% to 8.00%, the total balance of which amounting to approximately RMB24,775.0 million would become due within one year. Under the non-current portion of interest bearing bank and other borrowings, the Company had (i) secured bank loans and other loans of approximately RMB3,006.6 million, with interest rates ranging from approximately 4.35% to 6.09%; and (ii) unsecured bank loans and bonds payable of approximately RMB274.0 million, with interest rates ranging from approximately 3.70% to 8.03%, the total balance of which amounting to approximately RMB3,280.6 million would become due ranging from the second year to beyond five years.

We understand from the Management that, the Company intends to utilise its internal resource to repay and/or settle the full principal amount and the accrued interest on maturity date. As disclosed under the section headed “1. Information of the Group” above, the cash and cash equivalents position of the Group only stood at approximately RMB2,409.3 million as at 30 June 2022, which is totally insufficient for the Company to meet its debt obligations.

As discussed with the Management, before entering into the Agreement, the Company has considered various alternative financing methods apart from the Debt Capitalisation, including but not limited to debt financing and other ways of equity financing, namely rights issue, open offer or placement of new Shares to independent investors.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In terms of obtaining debt financing or bank borrowings from commercial banks, the Management is of the view that the ability of the Group to obtain bank borrowings usually depends on, among others, the profitability of the Group, which was in a loss-making position for the last five (5) financial years, as well as the prevailing market conditions. The Management also considered the lengthy due diligence, bank's internal risk assessment and negotiations with commercial banks (i.e. agreement on the loan-to-value ratio) that usually require pledge of assets by the borrower. In addition, the Management does not consider debt financing to be desirable given the requirement of interest payments and the additional borrowings would increase the debt to total equity ratio of the Company and potentially place its finance cost on an upward trend in the long run. As the assessment of commercial banks often includes, among others, evaluating the debt to total equity ratio, the composition of and changes in liabilities of the borrowing entity, obtaining additional interest bearing bank borrowings would potentially increase the cost of borrowings of the Company. With reference to the announcements of the Company dated 8 December 2022, 14 December 2022, 22 December 2022, 30 December 2022 and 6 January 2023 respectively, as the Total Outstanding Loan is interest-free and unsecured, it would be lacking any commercial rationale if the Company was to obtain interest-bearing bank borrowings to settle an unsecured and interest-free outstanding debt owed to the Creditors. Given the range of the interest rate of unsecured bank borrowings of the Group ranged from approximately 3.52% to 8.00% as at 30 June 2022 as abovementioned, we concur with the Management that debt financing would result in substantial additional interest burden on the Group, which would be detrimental to the financial performance, financial position and debt to total equity ratio especially under the existing tightened financing environment and is therefore undesirable from a financial standpoint in the long run.

The Management has also considered that if the Company was to raise the necessary funds by rights issue or open offer to finance the similar size as to the Debt Capitalisation (i.e. HK\$917.8 million), the subscription price would have to be set at a deep discount to the prevailing market price of the Shares so as to attract subscription by potential investors or existing Shareholders. In addition, rights issue or open offer of new Shares may also subject to underwriting uncertainty and market risks whilst any arm's length underwriting arrangement is normally subject to standard force majeure clause in favour of the underwriter and may potentially incur a higher transaction cost (i.e. underwriting and other related fees as the case may be). Although the existing Shareholders would be able to maintain their prorata shareholding in the Company, rights issue or open offer would need a relatively longer timeframe to complete in comparison to the subscription of the Capitalisation Shares, we have also conducted independent desktop research on the recent completed rights issue and open offer during the past three months announced by companies listed on the Main Board of the Stock Exchange, we noted that, without taking into account of the relevant pre-deal negotiation process, the timeframe would normally took an average of approximately 2.6 months, 6.0 months for the completion of the rights issue and open offer respectively, as there would be relatively lengthy documentation work for preparing and issuing a more detailed listing document. In addition, we also noted from the research that the underwriting fees are ranging from approximately 1.0% to 3.5% payable to underwriters, the Company would incur expenses and lower the net proceeds receivable if the Company chose to go down this path. The

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Company would have to spend more time to liaise with the parties involved such as the professional advisers, underwriters, share registrar and incur more expenses such as underwriting commission, documentation and other professional fees associated with the rights issue or open offer. In regards to placement of new Shares to independent investors, given the fact that the relatively thin trading volume of the Shares (save as the period from November 2022 to the Latest Practicable Date) and the recent downward pressure exerted on the prevailing Share price performance during the Review Period as discussed under the sub-section headed “Review on the trading liquidity of the Shares” and “Historical Share price performance” below respectively and having considered the Issue Price (i.e. HK\$0.115), merely representing a slight discount of approximately 7.26% over the closing price of HK\$0.124 per Share as quoted on the Stock Exchange on the date of the Agreement, the Management consider that it is difficult for a placing agent to seek independent third party investors to subscribe new Shares without imposing a relatively larger discount as compared with the Issue Price. Based on our discussion with the Management, we understood that during the end of November 2022, the Company had approached a PRC-based global investment bank as the placing agent (the “**Placing Agent**”) in discussing and exploring the feasibility of undertaking a placing exercise to seek funding from independent investors. As part of our due diligence, we have obtained and reviewed the relevant documentation between the Company and the Placing Agent. We understood from the Management that during the course of the feasibility study in the book building exercise conducted by the Placing Agent, the Placing Agent, after observing the feedback from the potential investors, indicated that it would be difficult to proceed further as the market demand for the Shares are minimal due to, among others (i) the consecutive loss-making position of the Group since FY2017; (ii) the cautious investors’ sentiment under the then volatile market environment; and (iii) the recent downward pressure exerted on the prevailing Share price performance. As a result, the share placement exercise did not materialise.

As compared to the above fund raising methods, when balanced against the merits of the Subscription, the Management considers that the Debt Capitalisation would be the best financing alternative available to the Company.

Having considered: (i) the Debt Capitalisation will allow the Company to settle the Total Outstanding Loan without imposing any substantial cash outflow so as to release the liquidity and working capital pressure of the Company; (ii) the severe shortage of cash and working capital for the repayment of the indebtedness of the Group; (iii) the Debt Capitalisation is an appropriate financing option for the Group as compared with other financing alternatives; and (iv) the terms of the Agreement are generally in line with recent market practice as discussed in the subsection headed “Comparable transactions analysis” below, we therefore concur with the Management’s view that the Debt Capitalisation is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

4. Capital-raising activities in the past 12 months

According to the Letter from the Board, approximately HK\$776.5 million raised from the top-up placing completed 6 July 2022 had been utilised for the (i) repayment of debt; (ii) expansion of online and offline dual-platform business; and (iii) general working capital purposes. Pursuant to the debt capitalisation announced on 2 January 2023, the capitalisation shares was issued to settle the outstanding debt owed to the creditor, the details of which are set out in the section headed “Capital-raising activities in the past 12 months” in the Letter from the Board. Save as disclosed above, the Company has not conducted any equity fund raising activities during the 12 months period immediately preceding the Latest Practicable Date.

5. Evaluation of the Issue Price

The Issue Price of HK\$0.115 per Capitalisation Share, represents:

- (i) a discount of approximately 7.26% to the closing price of HK\$0.124 per Share as quoted on the Stock Exchange on 18 January 2023, the date of the Agreement;
- (ii) a discount of approximately 7.85% to the average closing price of HK\$0.1248 per Share as quoted on the Stock Exchange for the last five trading days up to and including the Last Trading Day; and
- (iii) a discount of approximately 18.44% over the closing price of HK\$0.141 per Share quoted on the Stock Exchange on the Latest Practicable Date.

Historical Share price performance

In order to assess the fairness and reasonableness of setting the Issue Price at HK\$0.115 per Capitalisation Share, we have reviewed the daily closing prices of the Shares from 4 January 2021, being approximately two (2) years prior to the date of the Agreement, to 18 January 2023 (the “**Review Period**”). We consider that the Review Period is reasonable long enough and adequate to illustrate the historical trend and level of movement of the closing Share price and the Review Period is fair to reflect the market assessment and the financial performance of the Group before and after the release of the annual results for FY2020 and FY2021 coupled with the general market sentiment under the prolonged Pandemic. In general, we are of the view that the Review Period is adequate to reflect and for us to observe the general market sentiments impacted by the outbreak of the Pandemic and the geopolitical warfare in Europe as reflected in the general trend and level of movement of historical daily closing Share price. The following diagram sets out the daily closing prices of the Shares on the Stock Exchange during the Review Period:

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Chart 1: Movement of the Share closing price during the Review Period



Sources: the Stock Exchange

As illustrated by the chart above, during the Review Period, the closing price of the Shares traded between a range of HK\$0.109 per Share on 5 January 2023 (the “**Lowest Closing Price**”) and HK\$2.38 per Share on 25 February 2021 (the “**Highest Closing Price**”) with an average closing price per Share of approximately HK\$0.70 per Share (the “**Average Closing Price**”). The Issue Price is within the range of the Lowest Closing Price and Highest Closing Price during the Review Period and is higher than the Lowest Closing Price by approximately 4.55%.

As illustrated in the chart above, during the Review Period, the closing price of the Shares increased gradually from HK\$0.96 on 4 January 2021 and reached its peak at HK\$2.38 per Share (being the Highest Closing Price during the Review Period) on 25 February 2021. Subsequently, the daily closing price of the Shares started to decline from its peak on 25 February 2021 and demonstrated a general decreasing trend thereafter, and reached the bottom at HK\$0.109 per Share on 5 January 2023. There are some notable events below during the Review Period:

- (i) the voluntary announcement dated 17 February 2021 in connection to Mr. Wong’s parole probation period has been completed on 16 February 2021 and Mr. Wong’s original sentence has been served in full and he has officially been released (“**Release Announcement**”);
- (ii) after the Company published the profit warning announcement for FY2020 on 26 February 2021, the Share closing price commenced to decline from approximately HK\$2.32 on 1 March 2021;
- (iii) the Company published the annual results announcement for FY2020 on 31 March 2021, the Share price increased from approximately HK\$1.44 on 31 March 2021 to approximately HK\$1.67 on 7 April 2021;

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (iv) the Share price stood at approximately HK\$0.8 after the publication of announcement on the interim results for 1H2021 and the resignation of the president of the Company (i.e. Mr. Wang Jun Zhou) on 27 August 2021;
- (v) the publication of announcement on the annual results for FY2021 and the change of directors (i.e. appointed Ms. Dong Xiao Hong as non-executive Director and the redesignated of Ms. Huang Xiu Hong as executive Director) and resignation of director (i.e. Mr. Yu Sing Wong) on 31 March 2022;
- (vi) on 20 April 2022, the Company announced the proposed share consolidation on the basis that every 10 issued and unissued Shares of par value of HK\$0.025 each in the share capital of the Company will be consolidated into one consolidated share of par value of HK\$0.25 each (subsequently terminated on 27 May 2022), the Share price started to drop from approximately HK\$0.46 on 20 April 2022 to HK\$0.385 on 17 May 2022;
- (vii) the Share closing price declined from HK\$0.246 on 31 August 2022 after the publication of the interim results announcement for 1H2022 on 31 August 2022;
- (viii) voluntary announcements in relation to exempted connected transaction dated 8 December 2022, 14 December 2022, 22 December 2022, 30 December 2022 and 6 January 2023, respectively in connection to the First Creditor and the Second Creditor on extending the loans to the Company (“**Loans Announcements**”); and
- (ix) on 29 December 2022, the Company published an insider information announcement in relation to, among others, a subsidiary of the Company, namely GOME Appliances Company Limited (“**GOME Appliances**”) has received notifications from the Beijing No. 1 Intermediate People’s Court that certain applicants have filed a bankruptcy petition to the Court against GOME Appliances due to outstanding payments owed by GOME Appliances (the “**Petitions**”).

In addition to the notable events as abovementioned, based on our desktop research, we noted a number of negative news articles (“**News Articles**”) in relation to the Group were published. On 1 December 2022, the News Articles reported that a bankruptcy petition was received by GOME Appliances from the Beijing No. 1 Intermediate People’s Court. Subsequently on 11 December 2022, certain employees of GOME Appliances have occupied the Beijing headquarter of the Company to protest against GOME Appliances for their outstanding salaries receivable for the past months. The News Articles would also potentially impacted the Share Price and/or the trading liquidity of the Shares.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As advised by the Management, other than the events and factors as abovementioned, the Management were not aware of any event that led to the fluctuation in the Share price during the Review Period.

According to our review and analysis on the daily closing prices of the Shares during the Review Period, we noted that the Highest Closing Price of HK\$2.38 per Share was recorded on 25 February 2021, the Issue Price represented a discount of approximately 95.2% to the Highest Closing Price. The Highest Closing Price was recorded followed by the Release Announcement on 17 February 2021. The daily closing price had gradually declined thereafter and reached the Lowest Closing Price at HK\$0.109 per Share on 5 January 2023. Nevertheless, it should be noted that average closing prices for the last one (1) month, three (3) months and six (6) months prior to the date of the Agreement, are recorded at approximately HK\$0.12, HK\$0.14 and HK\$0.18 per Share respectively. The Issue Price of HK\$0.115 would then represent a discount to approximately 7.37%, 15.71% and 37.39% of the average closing price for the last one (1) month, three (3) months and six (6) months prior to the date of the Agreement respectively.

Furthermore, given the declining trend of the Share price of the Company and the relatively thin trading liquidity during the majority of the Review Period (save as the period from November 2022 up to the Latest Practicable Date) as discussed in the subsection headed “Review on the trading liquidity of the Shares” below, Mr. Wong, who is a substantial Shareholder of the Company, and being the single largest Shareholder which in our view demonstrates his confidence as a substantial shareholder towards the Company and his support for the Company’s business development with an aim to improve the financial position of the Company. As documented in the Loan Announcements, to provide the Total Outstanding Loan with the scale of approximately HK\$917.6 million to the Company without imposing any interest rate or pledge of assets, such favourable terms should be regarded as another example of his contributions towards the Company in terms of the intention to resolve the liquidity issue of the Company.

Review on the trading liquidity of the Shares

In order to further assess the fairness and reasonableness of setting the Issue Price, we have also reviewed the trading volume data in respect of the Shares from 4 January 2021 up to the Latest Practicable Date as illustrated in the table below:

Table 3: Trading liquidity analysis

| | Total trading volume <i>(No. of Shares)</i> | Number of trading days <i>(No. of days)</i> | Average daily trading volume <i>(No. of Shares)</i> <i>(Note 1)</i> | Average daily trading volume of Shares as a percentage of the issued Shares of the Company <i>(Note 2)</i> |
|-------------|---|---|--|--|
| 2021 | | | | |
| January | 4,310,486,820 | 20 | 215,524,341 | 1.0000% |
| February | 9,434,600,072 | 18 | 524,144,448 | 2.4319% |
| March | 2,937,896,204 | 23 | 127,734,618 | 0.5360% |

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

| | Total trading volume (No. of Shares) | Number of trading days (No. of days) | Average daily trading volume (No. of Shares) (Note 1) | Average daily trading volume of Shares as a percentage of the issued Shares of the Company (Note 2) |
|--|---|---|--|--|
| April | 2,715,748,780 | 18 | 150,874,932 | 0.6331% |
| May | 3,263,559,696 | 20 | 163,177,985 | 0.6847% |
| June | 10,056,139,736 | 21 | 478,863,797 | 2.0093% |
| July | 3,481,603,600 | 13 | 267,815,662 | 1.1237% |
| August | 6,462,605,792 | 8 | 807,825,724 | 3.3896% |
| September | 12,729,179,328 | 21 | 606,151,397 | 1.7957% |
| October | 7,273,874,280 | 20 | 363,693,714 | 1.0774% |
| November | 1,693,845,636 | 22 | 76,992,983 | 0.2281% |
| December | 1,186,562,810 | 22 | 53,934,673 | 0.1598% |
| 2022 | | | | |
| January | 1,454,617,732 | 21 | 69,267,511 | 0.2052% |
| February | 1,510,358,924 | 17 | 88,844,643 | 0.2632% |
| March | 2,937,896,204 | 23 | 127,734,618 | 0.3784% |
| April | 2,715,748,780 | 18 | 161,543,699 | 0.4786% |
| May | 3,263,559,696 | 20 | 163,177,985 | 0.4834% |
| June | 10,056,139,736 | 21 | 478,863,797 | 1.4186% |
| July | 3,481,603,600 | 13 | 267,815,662 | 0.7498% |
| August | 6,462,605,792 | 8 | 807,825,724 | 2.2616% |
| September | 12,729,179,328 | 21 | 606,151,397 | 1.6970% |
| October | 7,273,874,280 | 20 | 363,693,714 | 1.0182% |
| November | 39,603,525,616 | 22 | 1,800,160,255 | 5.0398% |
| December | 50,005,112,576 | 20 | 2,500,255,629 | 6.9998% |
| 2023 | | | | |
| January | 31,367,348,192 | 18 | 1,742,630,455 | 4.3805% |
| February | 31,926,501,248 | 20 | 1,596,325,062 | 4.0127% |
| March (up to the Latest Practicable Date) | 2,916,400,384 | 5 | 583,280,077 | 1.4662% |
| Maximum | | | | 6.9998% |
| Minimum | | | | 0.1598% |

Source: the Stock Exchange

Notes:

1. Average daily trading volume is calculated by dividing the total trading volume for the month/period by the number of trading days in the respective month/period.
2. The calculation is based on the average of the daily trading volume of the Shares divided by the total number of Shares in issue at the end of each month/period.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As illustrated from the table above, the average daily trading volumes of the Shares was relatively low during the review period on the trading liquidity of the Shares (save as the period from November 2022 up to the Latest Practicable Date), with a range of approximately 53,934,673 Shares to approximately 2,500,255,629 Shares, representing approximately 0.16% to 7.00% of the total number of Shares in issue of the Company as at the end of relevant month/period. We note that the exceptionally higher average daily trading volume of the Shares of approximately 2.5 billion Shares in December 2022, representing approximately 7.00% of the total number of issued Shares as at 31 December 2022. Such relatively active trading of Shares during such period was potentially attributable to the market reaction after the announcement in relation to the Petitions, the publication of Loans Announcements and the News Articles, the rest of the daily average trading volumes of the Shares remained relatively low and has been relatively consistent during the Review Period.

We noted that during the period from 4 January 2021 to 31 October 2022, the average trading volume of the Shares is ranging from the minimum of approximately 0.1598% to the maximum of approximately 3.3896%. On the other hand, during the period from November 2022 up to the Latest Practicable Date, the average trading volume of the Shares spiked substantially to the range from approximately 1.4662% to 6.9998%, we therefore consider that the period from November 2022 up to the Latest Practicable Date should be regarded as an unusual circumstances during the review period on the trading liquidity of the Shares. Given the large fluctuation in the historical average daily trading volume of the Shares during the period from 4 January 2021 up to the Latest Practicable Date, it is uncertain that the overall liquidity of the Shares could be maintained going forward. The relatively low trading volume during the majority of 2021 and 2022 may indicate the difficulty in pursuing sizeable equity financing alternatives in the stock market without providing considerable discount on the issue price.

In addition to the relatively low trading volume (save as the period from November 2022 to the Latest Practicable Date) during the Review Period, based on our discussion with the Management that, we concur with the Management's view that, among others (i) the favourable terms of the outstanding loan offered by the Creditors to ease the liquidity issue of the Group; (ii) our presentation in connection to the recent market practice of the comparable transactions debt/loan capitalisation and share issuance on the board meeting of the Company dated 18 January 2023; (iii) the recent downward pressure exerted on the prevailing Share price performance during the recent months; (iv) the risk of the Creditors of not accepting the proposed Debt Capitalisation if the issue price was set at a premium to the prevailing market price of the Share; and (v) with reference to the recent debt capitalisation transaction with the independent third party of the Company (i.e. Trans Asia Inter Capital Limited), the issue price of which represented a discount of approximately 7.0% and 18.16% to the closing price of the Share as quoted on the date of the agreement and the last five trading days up to and including the last trading day, respectively, such discount rates are higher than the relevant discount rates represented by the Issue Price, thus no preferential treatment was extended to the connected persons of the Company in this regard, we are of the view that the discounts of the Issue Price to the prevailing market price of the Shares are justifiable.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In light of the relatively low trading liquidity (save as the period from November 2022 to the Latest Practicable Date) and low trading volume, it may possess difficulties for the Company to pursue other financing alternatives when considering fundraising exercises, such as placement of new Shares to independent investors, rights issue and open offer. Given such relatively limited liquidity, disposal of large block of Shares in the open market may trigger a slump in the price of the Shares, therefore when the Company is pursuing sizeable equity financing alternatives in the stock market, potential investors would require more incentives (i.e. to provide a considerable level of discount on the issue price to the prevailing market price of the Shares) in order for them to participate in the relevant fundraising exercises. Accordingly, we are of the view that it is reasonable to set the Issue Price at a discount to the prevailing historical closing prices of the Shares to balance the low liquidity of the Shares during the majority of the Review Period.

Comparable transactions analysis

To further assess the fairness and reasonableness of the Issue Price, we have conducted an independent research, using our best endeavours, of recent debt/loan capitalisation involving issuance of shares to both connected persons and independent third parties under specific mandate initially announced by companies listed on the Main Board of the Stock Exchange (the “**Comparable Debt Capitalisation**”). The selection criteria of the Comparable Debt Capitalisation was based on the following: (i) the debt/loan capitalisation during the Review Period; (ii) the relevant transactions have been approved by shareholder and had not lapsed as at the Latest Practicable Date; (iii) companies listed on GEM of the Stock Exchange were excluded. Given that the Company is listed on the Main Board of the Stock Exchange, we are of the view that a list of Comparable Debt Capitalisation which is listed on the same market, with similar business scale, investor appetite and market capitalisation, is able to provide a fair and representative sample; and (iv) listed companies with one single class of shares in trading, as the capital structure of such listed companies comprised of more than one class of shares in trading and the trading price of each class of shares, where applicable, may be materially different from each other from time to time and may affect the trading price of the other class of shares. Based on our best endeavour and as far as we are aware, we have identified a total of ten (10) Comparable Debt Capitalisation, which met the said criteria and was announced during the Review Period (i.e. approximately 24 months prior to the date of the Agreement, and up to the date of the Agreement), to provide a general reference for and to compare with the market practice in relation to the debt/loan capitalisation transaction involving issuance of shares under the market condition during the Review Period.

It should be noted that by narrowing down the review period of the Comparable Debt Capitalisation down to a six (6) months period prior to the date of the Agreement, it would have resulted in a total of three (3) Comparable Debt Capitalisation which met the abovementioned criteria. Subsequently, if the review period was narrowed down to a twelve (12) months period prior to the date of the Agreement, the result would be a total of six (6) Comparable Debt Capitalisation under such selection criteria. We are of the view that by narrowing down the review period of debt/loan capitalisation down to either six (6) months or twelve (12) months, both of which would not be able to provide a representative and meaningful sample size to facilitate our evaluation of the terms of the Debt Capitalisation. Details of the Comparable Debt Capitalisation are set out in the table below.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Table 4: Analysis of the Comparable Debt Capitalisation

| Date of Announcement (Note 1) | Company Name | Stock Code | Issue/ Subscription Price (HK\$) | Premium/(discount) of the issue/subscription price over/(to) | | | Dilution effect of public shareholders |
|----------------------------------|--|-------------|--|--|---|--|--|
| | | | | Last trading day prior to/on the date of the relevant announcement/ agreement | Last 5 consecutive trading days prior to/on the date of the relevant announcement/ agreement | Last 10 consecutive trading days prior to/on the date of the relevant announcement/ agreement | |
| 2 January 2023 | GOME Retail Holdings Limited | 493 | 0.1023 | (7.00)% | (18.16)% | (22.68)% | 8.01% |
| 12 October 2022 | ShiFang Holding Limited | 1831 | 0.57 | (18.57)% | 45.04% | 2.52% | 21.95% |
| 22 August 2022 | China Environmental Technology and Bioenergy Holdings Limited | 1237 | 0.0768 | (2.78)% | 0.00% | (3.76)% | 3.70% |
| 4 July 2022 | China First Capital Group Limited | 1269 | 0.31 | (8.82)% | 4.73% | 10.91% | 8.49% |
| 2 March 2022 | Wealthking Investments Limited | 1140 | 0.92 | 15.00% | 21.37% | 25.00% | 29.70% |
| 23 February 2022 | CA Cultural Technology Group Limited | 1566 | 0.17 | (1.16)% | 1.80% | (6.59)% | 5.86% |
| 1 December 2021 | China Resources and Transportation Group Limited | 269 | 0.2 | 1439.00% | 1349.00% | 1279.31% | 10.11% |
| 7 June 2021 | China First Capital Group Limited | 1269 | 0.045 | (13.46)% | (15.73)% | (83.61)% | 9.61% |
| 13 May 2021 | Qidian International Co., Ltd | 1280 | 1.14 | 0.00% | 3.80% | 4.59% | 9.77% |
| 22 April 2021 | Kiu Hung International Holdings Limited | 381 | 0.267 | 6.80% | (0.37)% | (44.32)% | 33.65% |
| | | | Maximum | 15.00% | 45.04% | 25.00% | 33.65% |
| | | | Minimum | (18.57)% | (18.16)% | (83.61)% | 3.70% |
| | | | Average | (3.33)% | 4.72% | (13.10)% | 14.53% |
| | | Issue Price | 0.115 | (7.26)% | (7.85)% | (5.81)% | 13.22% |

Source: the Stock Exchange

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Notes:

1. The subscription of new shares by debt capitalisation announced on 1 December 2021 by China Resources and Transportation Group Limited (stock code: 269) is excluded from the Comparable Debt Capitalisation and the relevant analysis as it appears to be extreme outliers as compared to other Comparable Debt Capitalisation as the premium of issue/subscription price represented over (i) last trading day prior to/on the date of the relevant announcement/agreement; (ii) last five (5) consecutive trading days prior to/on the date of the relevant announcement/agreement; and (iii) last ten (10) consecutive trading days prior to/on the date of the relevant announcement/agreement reached approximately 1,439.0%, 1,349.0% and 1,279.3% respectively which may in turn provide a unreasonably high maximum value and average value for comparison, thus does not provide a meaningful analysis.
2. Save as Wealthking Investments Limited (stock code: 1140) and CA Cultural Technology Group Limited (stock code: 1566), the relevant announcements and circulars of the Comparable Debt Capitalisation did not disclose the premium/discount of the subscription price over/to the average closing price for the last 10 consecutive trading days up to and including the last trading day. Those premium of the subscription price over the last 10 consecutive trading days prior to the date of the relevant last trading day is calculated based on the market data published on the website of the Stock Exchange.

As shown in the table above, the issue/subscription prices of the Comparable Debt Capitalisation ranged from: (i) a discount of approximately 18.6% to a premium of approximately 15.0% to/over the respective closing prices of their shares on the last trading day prior to/on the date of the announcement/agreement in relation to the relevant share issuance/subscription (the “**Last Trading Day Range I**”), with an average discount of approximately 3.3% the (“**Last Trading Day Average I**”); (ii) a discount of approximately 18.2% to a premium of approximately 45.0% to/over the average closing prices of their shares on the last five (5) consecutive trading days prior to/on the date of the announcement/agreement in relation to the relevant share issuance/subscription (the “**Five Days Range I**”), with an average premium of approximately 4.7% (the “**Five Days Average I**”); and (iii) a discount of approximately 83.6% to a premium of approximately 25.0% to/over the average closing prices of their shares on the last ten (10) consecutive trading days prior to/on the date of the announcement/agreement in relation to the relevant share issuance/subscription (the “**Ten Days Range I**”), with an average discount of approximately 13.1% (the “**Ten Days Average I**”). Set forth below is a summary table of the above analysis:

| Applicable range | Premium/(discount) to/over the respective closing price | | |
|--------------------------|--|----------------|----------------|
| | Minimum | Maximum | Average |
| Last Trading Day Range I | (18.6%) | 15.0% | (3.3%) |
| Five Days Range I | (18.2%) | 45.0% | 4.7% |
| Ten Days Range I | (83.6%) | 25.0% | (13.1%) |

Notwithstanding that the Issue Price represents a discount of approximately 7.26%, 7.85% and 5.81% to the closing price of the Shares on the Last Trading Day, for the last five (5) consecutive trading days immediately prior to and including the Last Trading Day and for the last ten (10) consecutive trading days immediately prior to and including the Last Trading Day, respectively, as compared to the average of the Comparable Debt

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Capitalisation, the respective discount represented by the Issue Price is: (a) within the Last Trading Day Range I but higher than the Last Trading Day Average I; (b) within the Five Days Range I; and (c) within the Ten Days Range I and lower than the Ten Days Average I, of the Comparable Debt Capitalisation. Even though the discount represented by the Issue Price for the Last Trading Day is slightly higher than the Last Trading Day Average I, the respective discount represented by the Issue Price are all within the Last Trading Day Range I, the Five Days Range I and the Ten Days Range I respectively, and significantly lower than the minimum discount over the respective closing for the Last Trading Day Range I, the Five Days Range I and the Ten Days Range I respectively. With reference to our analysis above regarding the Comparable Debt Capitalisation, we concur with the view of the Management that the Issue Price is fair and reasonable.

In addition, we noted from the Comparable Debt Capitalisation that the relevant potential dilution effect to the public shareholders are ranging from approximately 3.70% to approximately 33.65% with an average dilution effect of approximately 14.53%. The potential dilution effect of approximately 13.22% to the existing public Shareholders as contemplated under the Debt Capitalisation falls within the range and is below the average dilution effect to the public shareholders of the Comparable Debt Capitalisation.

Further to the above, except for solely relying on the Comparable Debt Capitalisation research in evaluating the Issue Price, for illustration purpose only, we have further assess the fairness and reasonableness of the Issue Price by expanding our independent research to cover a list of transactions to compare with other share issuance exercises, so far as we are aware of, involving the recent issuance of new shares to connected persons under specific mandate initially announced by companies listed on the Main Board of the Stock Exchange (the “**Comparable Issues**”). The selection criteria of the Comparable Issues was based the following: (i) the issue of shares constituted a connected transaction; (ii) companies listed on GEM of the Stock Exchange were excluded. Given that the Company is listed on the Main Board of the Stock Exchange, we are of the view that a list of Comparable Issues which is listed on the same market, with similar business scale, investor appetite and market capitalisation, is able to provide a fair and representative sample; (iii) issuance of share award scheme to connected person were excluded; and (iv) listed companies with one single class of shares in trading (i.e. same reason as stated above in selection criteria (iv) of the Comparable Debt Capitalisation). Based on our best endeavour and as far as we are aware, we have identified a total of seven (7) Comparable Issues, which met the said criteria and was announced from 9 July 2022, being approximately six (6) months prior to the date of the Agreement, and up to the date of the Agreement (the “**Comparison Period**”), to provide a general reference for and to compare with the recent market practice in relation to the connected issuance of shares under similar market condition and sentiment. We are of the view that as the capital market changes rapidly and due to the volatility of the share prices of the companies listed on the Stock Exchange, the Comparison Period reflects a fair and recent period of comparison for the Issue Price. We further consider that, although the Comparison Period is shorter than the Review Period, the Comparable Issues is able to serve its illustration purpose and reflects the latest market conditions of connected shares issuance. We therefore consider that the Comparison Period is appropriate since it provided, in our opinion, a reasonable and meaningful number of samples for our analysis purpose and the Comparable Issues are a fair and representative sample.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Shareholders should note that the principal businesses, market capitalisations, profitability and financial positions of the companies undertaking both the Comparable Debt Capitalisation and the Comparable Issues (collectively, the “**Comparable Transactions**”) may not be the same as those of the Company, and we have not conducted any in-depth investigation into their businesses and operations. As the Comparable Transactions are able to provide a general reference of the key terms for similar transactions in Hong Kong, we consider, to the best of our knowledge and ability, based on the respective selection criteria of the Comparable Transactions, which are exhaustive, fair, representative and indicative in assessing the fairness and reasonableness of the Issue Price. Details of the Comparable Issues during the Comparison Period are set forth below.

Table 5: Analysis of the Comparable Issues

| Date of Announcement (Note 1) | Company Name | Stock Code | Issue/ Subscription Price (HK\$) | Premium/(discount) of the issue/subscription price over/(to) | | | Dilution effect of public shareholders |
|----------------------------------|--|-------------|----------------------------------|---|--|---|--|
| | | | | Last trading day prior to/on the date of the relevant announcement/ agreement | Last 5 consecutive trading days prior to/on the date of the relevant announcement/ agreement | Last 10 consecutive trading days prior to/on the date of the relevant announcement/ agreement | |
| 18 November 2022 | Anchorstone Holdings Limited | 1592 | 0.1674 | (1.50)% | (5.00)% | (7.8)% | 5.26% |
| 1 September 2022 | BOE Varitronix Limited | 710 | 15.20 | (7.20)% | (11.83)% | (14.12)% | 3.06% |
| 1 September 2022 | Suoxinda Holdings Limited | 3680 | 1.045 | (19.60)% | (6.00)% | (2.70)% | 5.55% |
| 23 August 2022 | Qidian International Co., Ltd. | 1280 | 0.5 | (12.28)% | (12.28)% | (11.97)% | 27.84% |
| 23 August 2022 | Standard Development Group Limited | 1867 | 0.23 | (14.80)% | (16.10)% | (18.40)% | 2.8% |
| 11 August 2022 | Hong Kong Resources Holdings Company Limited | 2882 | 0.289 | 5.09% | Nil | (0.17)% (Note 2) | 8.25% |
| 14 July 2022 | China Ruyi Holdings Limited | 136 | 2.4 | (2.04)% | (10.11)% | (13.67)% | 5.63% |
| | | | Maximum | 5.09% | Nil | (0.17)% | 27.84% |
| | | | Minimum | (19.60)% | (16.10)% | (18.40)% | 2.80% |
| | | | Average | (7.48)% | (8.76)% | (9.83)% | 8.34% |
| | | Issue Price | 0.115 | (7.26)% | (7.85)% | (5.81)% | 13.22% |

Source: the Stock Exchange

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Notes:

1. Unless specified, the premium/discount represented by the issue/subscription price over/to (i) the closing prices on the respective last trading day; (ii) the average closing price on last 5 consecutive trading days; and (iii) the average closing price on last 10 consecutive trading days are extracted from the respective announcements of the Comparable Issues.
2. The relevant announcement and circular did not disclose the premium/discount of the subscription price over/to the average closing price for the last 10 consecutive trading days up to and including the last trading day. The premium of the subscription price over the last 10 consecutive trading days prior to the date of the relevant last trading day is calculated based on the market data published on the website of the Stock Exchange.

As shown in the table above, the issue/subscription prices of the Comparable Issues ranged from: (i) a discount of approximately 19.6% to a premium of approximately 5.09% to/over the respective closing prices of their shares on the last trading days prior to/on the date of the announcement/agreement in relation to the relevant share issuance/subscription (the “**Last Trading Day Range II**”), with an average discount of approximately 7.48% (the “**Last Trading Day Average II**”); (ii) a discount of approximately 16.10% to no premium to/over the average closing prices of their shares on the last five (5) consecutive trading days prior to/on the date of the announcement/agreement in relation to the relevant share issuance/subscription (the “**Five Days Range II**”), with an average discount of approximately 8.76% (the “**Five Days Average II**”); and (iii) a discount of approximately 18.40% to a discount of approximately 0.17% to the average closing prices of their shares on the last ten (10) consecutive trading days prior to/on the date of the announcement/agreement in relation to the relevant share issuance/subscription (the “**Ten Days Range II**”), with an average discount of approximately 9.83% (the “**Ten Days Average II**”). Set forth below is a summary table of the above analysis:

| Applicable range | Premium/(discount) to/over the respective closing price | | |
|---------------------------|--|----------------|----------------|
| | Minimum | Maximum | Average |
| Last Trading Day Range II | (19.6%) | 5.09% | (7.48%) |
| Five Days Range II | (16.1%) | Nil | (8.76%) |
| Ten Days Range II | (18.40%) | (0.17%) | (9.83%) |

Notwithstanding that the Issue Price represents a discount of approximately 7.26%, 7.85% and 5.81% to the closing price of the Shares on the Last Trading Day, for the last five (5) consecutive trading days immediately prior to and including the Last Trading Day and for the last ten (10) consecutive trading days immediately prior to and including the Last Trading Day, respectively, as compared to the average of the Comparable Issues, the respective discount represented by the Issue Price is: (a) within the Last Trading Day Range II and lower than the Last Trading Day Average II; (b) within the Five Days Range II and lower than the Five Days Average II; and (c) within the Ten Days Range II and lower than the Ten Days Average II, of the Comparable Issues. Given the fact that the respective discount represented by the Issue Price are all within the Last Trading Day Range II, the Five Days Range II and the Ten Days Range II respectively, and comparatively better than the Last Trading Day Average II, Five Days Average II, and Ten Days Average II respectively, with reference to our analysis above regarding the Comparable Issues, we concur with the view of the Management that the Issue Price is fair and reasonable.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Furthermore, we noted the dilution effect to the public shareholders of the Comparable Issues ranged from approximately 2.80% to approximately 27.84% with the average dilution effect of approximately 8.34%. As the Debt Capitalisation will potentially incur a dilution effect on the shareholding of the existing public Shareholders by approximately 13.22%, the dilution effect of which falls within the range but is above the average dilution effect to the public shareholders of the Comparable Issues.

Having considered the fact that: (i) the Issue Price of HK\$0.115 per Subscription Share is within the range of the closing prices of the Shares and represents a premium of approximately 4.55% over the Lowest Closing Price of approximately HK\$0.11 during the Review Period; (ii) the discount of the Issue Price is within the range of the Comparable Issues and is significantly lower than the greatest discount of approximately 19.60%, 16.10% and 18.40% of the Last Trading Day Range II, Five Days Range II and Ten Days Range II respectively; (iii) the potential dilution effect of the Debt Capitalisation to the shareholding of the existing public Shareholders is within the range of the Comparable Transactions; and (iv) the Debt Capitalisation is a preferred means to raise funds given the Company's circumstances comparing to other fundraising methods, we consider that the Issue Price is fair and reasonable so far as the Independent Shareholders are concerned.

6. Potential dilution effects of the Debt Capitalisation and the Subscriptions

As at the Latest Practicable Date, the Company had a total of 39,781,900,199 Shares in issue. For illustrative purpose, assuming there will be no change to the issued share capital of the Company as a result of the Debt Capitalisation. Set out below is the shareholding structure of the Company: (i) as at the Latest Practicable Date; and (ii) immediately after completion of the Debt Capitalisation:

| | As at the Latest Practicable Date | | Shareholding after completion of the Debt Capitalisation | |
|---|--------------------------------------|--|---|--|
| | Number of Shares | Approximate shareholding percentage (%) | Number of Shares | Approximate shareholding percentage (%) |
| Shareholders | | | | |
| The First Creditor ^(Note 1) | 2,006,938 | 0.01 | 4,349,832,938 | 9.11 |
| The Second Creditor ^(Note 1) | 2,661,182,000 | 6.69 | 6,293,895,000 | 13.18 |
| Mr. Wong and his associates ^(Note 2) | 1,607,606,664 ^(Note 3) | 4.04 | 1,607,606,664 ^(Note 3) | 3.37 |
| <i>Sub-total</i> | <i>4,270,795,602</i> | <i>10.74</i> | <i>12,251,334,602</i> | <i>25.66</i> |
| Trans Asia Inter Capital Limited | 4,062,856,000 | 10.21 | 4,062,856,000 | 8.51 |
| Other public shareholders | 31,448,248,597 | 79.05 | 31,448,248,597 | 65.83 |
| Total | 39,781,900,199 | 100.00 | 47,762,439,199 | 100.00 |

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Notes:

1. *Both the First Creditor and the Second Creditor are companies wholly-owned by Mr. Wong.*
2. *Other than the First Creditor and the Second Creditor.*
3. *Of these 1,607,606,664 Shares, 246,706,664 Shares are held by Smart Captain Holdings Limited, 160,000,000 Shares are held by Hillwood Assets Management Limited, 1,200,000,000 Shares are held by Element Assets Management Limited and 900,000 Shares are held by Ms. Du Juan, the spouse of Mr. Wong. All the companies mentioned above are wholly owned by Mr. Wong.*

As shown in the above table, we noted that the shareholding in the Company held by the existing public Shareholders would be diluted from approximately 79.05% as at the Latest Practicable Date to approximately 65.83% immediately after the completion of the Debt Capitalisation, representing a dilution of approximately 13.22%. We are aware of the Debt Capitalisation will incur a dilution effect on the shareholding of the exiting public Shareholders. Nonetheless, having considered that (i) the Debt Capitalisation can relieve part of the Group's existing borrowings without depleting its existing financial resources; (ii) the result of the Debt Capitalisation can lower the debt to total equity ratio of the Group; (iii) the terms of the Agreement being fair and reasonable so far as the Independent Shareholders are concerned; and (iv) the potential dilution effect of the Debt Capitalisation to the shareholding of the existing public Shareholders is within the range of the Comparable Transactions, we are of the view that the potential dilution effect on the shareholding interests of the public Shareholders to be acceptable.

7. Financial effects of the Debt Capitalisation

Effect on total liabilities and NAV

According to 2022 Interim Report, the unaudited total liabilities and NAV attributable to owners of the parent was approximately RMB58,567.8 million and RMB20,227.8 million as at 30 June 2022 respectively. Assuming the Group will not incur new borrowings and no other settlement will be made on the Group's liabilities, the Group's total liabilities will be decreased by the amount of the Total Outstanding Loan of approximately HK\$917.6 million upon completion of the Debt Capitalisation. In light of the decrease of total liabilities, the NAV attributable to owners of the parent will also be enhanced by the amount of the Total Outstanding Loan from approximately RMB20,227.8 million to approximately RMB21,023.2 million. We consider that the Debt Capitalisation will incur an overall improvement on the Group's net assets position.

Effect on debt to total equity ratio

Based on the 2022 Interim Report, the debt to total equity ratio of the Group, calculated by the percentage of total borrowings (amounted to approximately RMB28,056 million, comprised of interest-bearing bank loans, other loans, corporate bonds and convertible bonds) over total equity (amounted to approximately RMB15,903 million), was approximately 160.4% as at 31 December 2021, was then increased to approximately

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

176.4% as at 30 June 2022. Upon completion of the Debt Capitalisation, the debt to total equity ratio is expected to improve accordingly as the total borrowings of the Group would decrease by approximately HK\$917.6 million, being the amount of the Total Outstanding Loan and the total equity of the Group will be enlarged by the allotment and issue of the Subscription Shares. We therefore consider that the Debt Capitalisation will have an overall improvement on the debt to total equity ratio of the Group.

Effect on working capital

As the Total Outstanding Loan will be fully settled by way of allotment and issue of the Capitalisation Shares without incurring any cash outflow by the Group, the Debt Capitalisation would enable the Company to free the cash flow on its general working capital, for repayment of other borrowings and/or development of its business without affecting the working capital of the Company. Accordingly, the cash and liquidity positions of the Group are expected to have a positive impact upon the completion of Debt Capitalisation.

Although the above analysis is for illustrative purpose only and do not purport to represent how the financial position of the Group will be upon completion of the Debt Capitalisation. Based on the above analyses, the Debt Capitalisation would have a positive impact on the Group's NAV, debt to total equity ratio and working capital. On such bases, we are of the view that the Debt Capitalisation is fair and reasonable and is in the interests of the Company and the Independent Shareholders as a whole.

II. PROPOSED REFRESHMENT OF GENERAL MANDATE

1. Background of the Existing General Mandate

At the annual general meeting of the Company held on 27 May 2022, the Shareholders approved, among other things, the grant of the Existing General Mandate which authorised the Directors to allot, issue and deal with not more than 6,751,308,839 new Shares, being 20% of the issued share capital of the Company of 33,756,544,199 Shares as at the date of the annual general meeting. As at the Latest Practicable Date, since the grant of the Existing General Mandate, 6,025,356,000 Shares have been issued under such mandate, details of which were set out in the Company's announcement dated 28 June 2022, 6 July 2022 and 2 January 2023 respectively.

As set out in the Letter from the Board, subject to the Independent Shareholders' approval of the Refreshed General Mandate, and assuming that no other Shares will be issued and/or repurchased by the Company on or prior to the date of the SGM, the Shares in issue as at the date of the SGM would be 39,781,900,199 Shares, which means that under the Refreshed General Mandate, the Directors would be authorised to allot, issue and deal with not more than 7,956,380,039 new Shares, representing 20% of the Shares in issue as at the Latest Practicable Date. The Refreshed General Mandate will, if granted, expire at the earliest of:

- (i) the conclusion of the next annual general meeting of the Company;

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable laws and regulations of the Cayman Islands to be held; or
- (iii) the date on which the authority set out in the resolution for the approval of the Refreshed General Mandate is revoked or varied by the passing of an ordinary resolution of the Shareholders in general meeting.

2. Reasons for the Refreshment of General Mandate

As disclosed in the Letter from the Board, as at the Latest Practicable Date, since the grant of the Existing General Mandate, 6,025,356,000 Shares have been issued under such mandate. On 30 June 2022, a total of 1,962,500,000 new Shares have been successfully placed at the placing price of HK\$0.40 per Share to not less than six independent places pursuant to the terms and conditions of the placing and subscription agreement dated 28 June 2022 entered into by the Company. For details, please refer to the announcements of the Company dated 28 June 2022 and 6 July 2022. On 9 January 2023, the Company issued 4,062,856,000 new Shares to Trans Asia Inter Capital Limited, a then creditor of the Company, at HK\$0.1023 per Share pursuant to the terms and conditions of the agreement dated 30 December 2022 entered into between the Company and Trans Asia Inter Capital Limited in respect of the capitalisation of the debt owed by the Group to Trans Asia Inter Capital Limited. For details, please refer to the announcement of the Company dated 2 January 2023. The allotment and issuance of a total of 6,025,356,000 new Shares as aforementioned utilised approximately 89% of the total number of Shares to be allotted and issued under the Existing General Mandate and 725,952,839 Shares may be further issued under the Existing General Mandate.

We have enquired with the Management and were advised that the timing of the next annual general meeting of the Company is expected to be held around June 2023, which is about five (5) months away from the Latest Practicable Date. In accordance with the Listing Rules, should the Company wish to issue new Shares or any equity-linked securities for appropriate capital raising opportunities before the grant of a new general mandate in the next annual general meeting of the Company, the Company is required to publish announcement(s), issue circular(s) and seek the Shareholders' approval in an special general meeting, which we consider to be a lengthy process and may therefore hinder the progress of any potential fund raising exercise. In the absence of the Refreshed General Mandate, the Company lacks the flexibility and discretion to issue new Shares or other equity-linked securities in a timely manner.

In connection with the Company's imminent funding needs, as disclosed in the 2022 Interim Report and with reference to the section headed "3. Reasons for and benefits of the Debt Capitalisation" under part (I) ISSUE OF NEW SHARES UNDER SPECIFIC MANDATE: DEBT CAPITALISATION above, we noted that the Company had (i) the total outstanding borrowings of the Group due within one year as at 30 June 2022 of approximately RMB24,775.0 million; and (ii) the cash and cash equivalent as at 30 June 2022 of approximately RMB2,409.3 million. In view of the above, we concur with the Management that the Group has imminent funding needs and we consider that having the fundraising capability through the grant of Refreshed General Mandate is a prudent approach in maintaining financial flexibility of the Group, in particular possesses an additional financing option to raise funds for repayment of outstanding borrowings if it is deemed necessary by the Board.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As disclosed in the Letter from the Board, as at the Latest Practicable Date, the Company has not formulated any concrete plan for raising capital or capitalisation of debts by issuing new Shares under the Proposed Refreshment of General Mandate, the Proposed Refreshment of General Mandate will enable the Company to capture better timing for fund raising before the next annual general meeting. Nevertheless, as advised by the Management, the Refreshed General Mandate would enhance the financial flexibility of the Group to raise the necessary financing to make timely decision in order to respond to suitable investment opportunities promptly. In addition, if the Existing General Mandate is refreshed, the Group will also be in a better bargaining position during the course of negotiation of potential business opportunities or investments. Should the negotiation of the Company with respective institutions come to fruition in the near future, the Company will be able to enter into formal agreement with the relevant institutions in a timely manner with the Refreshed General Mandate. Having said that, as at the Latest Practicable Date, the Group is not in negotiation (whether concluded or not) in respect of any issue of new Shares which will utilise the refreshed general mandate.

If the Proposed Refreshment of General Mandate is approved at the SGM, the Company has the flexibility to decide on utilising the Refreshed General Mandate to either (i) capitalise the debts due to creditors of the Group; or (ii) meet possible funding needs for future business development and/or investment decisions which may arise any time. In terms of repayment of borrowings, utilising the Refreshed General Mandate as a means to convert debt into equity will reduce the financial burden and loan default risk of the Company, which is currently a pressing matter for the Group. With respect to the future business development and/or investment opportunities, as discussed under the section headed “3. Reasons for and benefits of the Debt Capitalisation” under part (I) ISSUE OF NEW SHARES UNDER SPECIFIC MANDATE: DEBT CAPITALISATION above. The Company was in a loss-making position for the last five (5) financial years, recorded consecutive net loss attributable to owners of the parent of approximately RMB449.9 million, RMB4,886.9 million, RMB2,589.8 million, RMB6,993.8 million and RMB4,402.0 million for FY2017, FY2018, FY2019, FY2020 and FY2021 respectively, the Company should capture any investment opportunities which are favourable to the Group in a timely manner, in particular on new business opportunities that could generate positive income to the Group in order to turnaround its financial performance. Having considered the global and local economic uncertainties arose from the impact of the Pandemic which had adversely affect the Group’s business and overall short-term performance, the Group will need to be cautious in managing business risks and be prepared to respond to changes in the current challenging business environment, and aim to strategically develop the Group’s business to mitigate the impact. Decisions to undertake any viable business opportunities with sufficient funding support is often required to be made within a short period of time. As such, we concur with the Management that the Proposed Refreshment of General Mandate will allow the Company to capture suitable fund raising options, explore business development, investments and acquisition opportunities in a timely manner, so that the Management can react promptly and efficiently, as such events may possibly happen within the upcoming five (5) months period before the next annual general meeting.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In addition, we are of the view that the interests of minority Shareholders are sufficiently safeguarded based on the fact that: (i) the Proposed Refreshment of General Mandate will be subject to the Independent Shareholders' approval which is more stringent than the grant of a specific mandate (and also the customary grant of general mandate(s) at annual general meeting(s)) for which not only the Independent Shareholder can vote; (ii) the Independent Shareholders are given information in the circular as far as possible for them to make an informed voting decision, including the advice and recommendation of the Independent Board Committee and the Independent Financial Adviser as to how to vote, the intended use of the Refreshed General Mandate for placement(s) of new Shares to potential investors (including the expected size and timing of the potential share placement(s)) and the intended use of the proceeds from the potential share placement(s); (iii) the Company will inform the Shareholders about the terms and conditions of the potential share placement(s) by way of announcement(s) when they materialise; and (iv) the fairness of the potential share placement(s) will be subject to the scrutiny of the Stock Exchange for the grant of the listing approval for the new Shares to be issued.

Based on the above, in particular, (i) approximately 90% of the Existing General Mandate has been utilised; (ii) it is expected that the next general meeting of the Company will be held around June 2023, which is about five (5) months away from the Latest Practicable Date, in which the grant of a new general mandate will be proposed; (iii) the imminent need of the Company in the repayment of its outstanding debts; (iv) the Company may not be able to capture any prospective investment opportunities in a timely manner; and (v) the Group's weak financial position such as the decrease in cash and cash equivalent coupled with the increase in its debt to total equity ratio as discussed under the section headed "1. Information of the Group" and "7. Financial effects of the Debt Capitalisation" under part (I) ISSUE OF NEW SHARES UNDER SPECIFIC MANDATE: DEBT CAPITALISATION above respectively, we are of the view that the Proposed Refreshment of General Mandate is fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

3. Consideration of other financing alternatives

The Management has considered other financing alternatives apart from the refreshment of Existing General Mandate including but not limited to debt financing, right issue or open offer to meet the immediate funding needs of the Group, same analysis apply when analysed the financing alternatives of the Debt Capitalisation in the section headed "3. Reasons for and benefits of the Debt Capitalisation" under part (I) ISSUE OF NEW SHARES UNDER SPECIFIC MANDATE: DEBT CAPITALISATION above in this letter which we do not seek to repeat here.

4. Potential dilution effects to the exiting public Shareholders

In conducting any placing of new Shares pursuant to the Refreshed General Mandate, the Directors have a fiduciary duty to the Company to negotiate fair terms that are in the interests of the Company and the Shareholders as a whole. In deciding whether to utilise and how to utilise the Refreshed General Mandate, the Directors would take into account, among other

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

things, the immediate funding needs of the Group, the time and cost involved, and the potential dilution of shareholding of the existing Shareholders resulting from any placing of new Shares. In considering any proposal for issuing new Shares, the Directors would also consider the pricing and availability of opportunities for other financing alternatives, such as debt financing or internal resources, with the aim to achieve an efficient capital structure of the Company.

We noted that the utilisation of the Refreshed General Mandate in full would dilute the shareholding of the existing Shareholders. Nevertheless, having considered: (i) the reasons and benefits as discussed under the section headed “2. Reasons for the Refreshment of General Mandate” under part (II) PROPOSED REFRESHMENT OF GENERAL MANDATE above, in particular the Refreshed General Mandate allows or enables the Company to with an additional financing option to raise funds for repayment of outstanding borrowings if it is deemed necessary by the Board; (ii) the shareholding interests of all the existing Shareholders will be diluted *pari passu* to the respective shareholdings upon any utilisation of the Refreshed General Mandate; (iii) the Company has clear funding needs in relation to the repayment of outstanding debts, in which the Refreshed General Mandate would provide more flexibility and represents a viable additional financing option to enable the Company to respond in a timely and effective manner; and (iv) the Refreshed General Mandate will provide an alternative option to the Group to conduct fund raising exercise in a shorter timeframe and is less costly when compared to using alternative financing methods, such as open offer and rights issue which are time consuming and may require a substantial discount in the offer price in order to attract subscription, we are of the opinion that the potential dilution effect of the shareholding of the existing public Shareholders is justified and we concur with the Management that the underlying benefits of the Refreshed General Mandate outweigh to a reasonable extent the aggregated dilution impact on the minority Shareholders upon completion of the Company’s fundraising activities in the past 12 months and the potential utilisation of the Refreshed General Mandate.

OPINION AND RECOMMENDATION

We have considered the above principal factors and reasons and, in particular, having taken into account the following in arriving at our opinion:

- (i) the Debt Capitalisation is an appropriate fund raising method currently available to the Group due to the reasons set forth under the section headed “3. Reasons for and benefits of the Debt Capitalisation”;
- (ii) the Debt Capitalisation enable the Group to mitigate a substantial cash outflow, allowing the Company to retain working capital to support its business operations and development;
- (iii) the terms of the Agreement are in line with the Comparable Transactions;
- (iv) the potential dilution effect to the shareholding interest of the public Shareholders arising from the Debt Capitalisation is acceptable; and

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (v) the Refreshed General Mandate is on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

We are of the view that the Agreement and the Debt Capitalisation, and the Proposed Refreshment of General Mandate are not conducted in the ordinary and usual course of business of the Group, the terms of the Agreement and Refreshed General Mandate are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and are 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 resolution approving the Agreement and the Debt Capitalisation and the Proposed Refreshment of General Mandate at the SGM.

Yours faithfully,
For and on behalf of
Opus Capital Limited
Li Lan
Executive Director

Mr. Li Lan is an Executive Director of Opus Capital and is licensed under the SFO as a Responsible Officer to conduct Type 6 (advising on corporate finance) regulated activities. Mr. Li has over 16 years of corporate finance experience in Hong Kong and has participated in and completed various financial advisory and independent financial advisory transactions.

* *For identification purpose only*

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

(a) Interests of Directors

As at the Latest Practicable Date, so far as the Directors or chief executive of the Company were aware of, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

| Name of Shareholder | Nature | Number of ordinary Shares held | Approximate % of shareholding |
|----------------------|------------------|--------------------------------|-------------------------------|
| Huang Xiu Hong | Beneficial owner | 21,000,000 ⁽¹⁾ | 0.05 |
| Lee Kong Wai, Conway | Beneficial owner | 1,000,000 | 0.00 |
| Liu Hong Yu | Beneficial owner | 1,000,000 | 0.00 |
| Wang Gao | Beneficial owner | 1,000,000 | 0.00 |

Note:

- (1) among that 1,100,000 Shares are in the form of share options of the Company granted pursuant to the share option scheme adopted by the Company on 12 September 2018 (the “Share Option Scheme”).

Save as disclosed above, as at the Latest Practicable Date, none of the Directors, chief executive of the Company or their respective associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

(b) Interests of substantial Shareholders

As at the Latest Practicable Date, so far as the Directors or chief executive of the Company were aware of, persons (other than Directors or chief executive of the Company) who had interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO, were as follows:

| Name of Shareholder | Nature | Number of ordinary Shares held | Approximate % of shareholding |
|--|------------------------------------|---|--|
| Mr. Wong ⁽¹⁾ | Interest in controlled corporation | 4,293,795,602 | 10.79 |
| Ms. Du Juan ⁽²⁾ | Interest in controlled corporation | 4,293,795,602 | 10.79 |
| Ever Ocean Investments Limited ⁽³⁾ | Interest in controlled corporation | 2,661,182,000 | 6.69 |
| GOME Holdings Limited ⁽³⁾ | Interest in controlled corporation | 2,661,182,000 | 6.69 |
| Power Charm Holdings Limited ⁽³⁾ | Interest in controlled corporation | 2,661,182,000 | 6.69 |
| GOME Home Appliances (H.K.) Limited ⁽³⁾ | Interest in controlled corporation | 2,661,182,000 | 6.69 |
| GOME Management Limited ⁽³⁾ | Beneficial owner | 2,661,182,000 | 6.69 |
| Shining Crown Holdings Inc. ⁽⁴⁾ | Beneficial owner | 2,006,938 | 0.00 |
| Trans Asia Inter Capital Limited | Beneficial owner | 4,062,856,000 | 10.21 |

Notes:

- (1) These 4,293,795,602 Shares include 2,661,182,000 Shares held by GOME Management Limited, 2,006,938 Shares held by Shinning Crown Holdings Inc., 246,706,664 Shares held by Smart Captain Holdings Limited, 160,000,000 Shares held by Hillwood Assets Management Limited, 1,200,000,000 Shares held by Element Assets Management Limited and 900,000 Shares held by Ms. Du Juan; and also include 12,000,000 Shares and 11,000,000 Shares in the form of share options of the Company granted to Mr. Wong and Ms. Du Juan pursuant to the Share Option Scheme, respectively.

- (2) Ms. Du Juan is the spouse of Mr. Wong. The aforesaid Shares that Mr. Wong and Ms. Du Juan are deemed to be interested refer to the same parcel of Shares.
- (3) GOME Management Limited is wholly-owned by GOME Home Appliances (H.K.) Limited, which is in turn wholly-owned by Power Charm Holdings Limited, which is in turn wholly-owned by GOME Holdings Limited, which is in turn wholly-owned by Ever Ocean Investments Limited, and which is in turn wholly-owned by Mr. Wong.
- (4) Shining Crown Holdings Inc. is 100% beneficially owned by Mr. Wong.
- (5) Ms. Huang Xiu Hong, an executive Director, is a director of each of GOME Home Appliances (H.K.) Limited, GOME Management Limited and Shinning Crown Holdings Inc.; while Mr. Zou Xiao Chun, an executive Director, is a director of Shinning Crown Holdings Inc.

Save as disclosed above, the Company has not been notified of any other interest representing 5% or more of the share and recorded in the register required to be kept under Section 336 of the SFO as at the Latest Practicable Date.

3. DIRECTOR'S INTERESTS IN COMPETING BUSINESS

As at the Latest Practicable Date, no Director of the Company was interested in any business (other than those businesses where the Directors were appointed as directors to represent the interests of the Company and/or any member of the Group) which were considered to compete or were likely to compete, whether directly or indirectly, with the businesses of the Group.

4. DIRECTORS' INTERESTS IN ASSETS

As at the Latest Practicable Date, none of the Directors had any interest, direct or indirect, in any assets which had been acquired or disposed of by, or leased to, any member of the Group or were proposed to be acquired or disposed of by, or leased to, any member of the Group since 31 December 2021, being the date to which the latest published audited consolidated financial statements of the Company were made up.

5. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with any member of the Group which is not expiring or determinable by such member of the Group within one year without payment of compensation (other than statutory compensation).

6. DIRECTOR'S INTERESTS IN CONTRACTS OR ARRANGEMENTS

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement which was significant in relation to the business of the Group.

7. MATERIAL ADVERSE CHANGE

Since 31 December 2021, affected by the pandemic, the consumer market environment has become complex and volatile, which has posed more challenges to the retail industry, and the Group's businesses have also been significantly affected. The Company expects that the operating loss attributable to owners of the parent for the full year of 2022 will increase by 35% to 65% as compared with the corresponding period last year based on the operating data for the first three quarters of the year ended 31 December 2022. The actual extent of the loss for the full year will be confirmed after the year-end and full-year results are settled and audited.

As at 3 February 2023, the Group has total outstanding overdue loans amounted to approximately RMB6.89 billion. The Company is in active discussions with lenders on refinancing, or the extension of repayment term. If the Group is unable to meet its financial obligation or to repay any debt when due or the Group is unable to arrange for refinancing or agree with the relevant creditors on extensions of such debts or alternative agreements, it may lead to cross-default under the Group's existing financing arrangements and relevant creditors demanding acceleration of repayment. This would have a material adverse effect on the Group's business, prospects, financial condition and results of operations.

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any other material adverse change in the financial or trading position of the Group since 31 December 2021, being the date to which the latest published audited financial statements of the Group were made.

8. EXPERT AND CONSENT

The following is the qualification of the expert or professional adviser who has given its opinion or advice contained in this circular:

| Name | Qualification |
|----------------------|---|
| Opus Capital Limited | a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activities under SFO |

As at the Latest Practicable Date, the above expert:

- (a) has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name, in the form and context in which it appears;
- (b) did not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group; and

- (c) did not have any direct or indirect interest in any assets which had been since 31 December 2021 (the date to which the latest published audited consolidated financial statements of the Company were made up), acquired, disposed of by, or leased to any member of the Group or were proposed to be acquired or disposed of by, or leased to any member of the Group.

9. DOCUMENTS ON DISPLAY

Copies of the following documents will be published on the Company's website (www.gome.com.hk) and the Stock Exchange's website (www.hkexnews.hk) from the date of this circular up to and including the date of the SGM (being not less than 14 days):

- (a) the Agreement; and
- (b) the written consent of the expert referred to in the paragraph headed "Expert and consent" in this appendix.

NOTICE OF SGM



GOME RETAIL HOLDINGS LIMITED

國美零售控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 493)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a special general meeting (the “**SGM**”) of GOME Retail Holdings Limited (the “**Company**”) will be held at Forum Room I, Basement 2, Regal Hong Kong Hotel, 88 Yee Wo Street, Causeway Bay, Hong Kong on Monday, 27 March 2023 at 2:30 p.m. to consider and, if thought fit, approve with or without modifications, the following resolutions as ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

1. “**THAT** the agreement dated 18 January 2023 (the “**Agreement**”) entered into among the Company, GOME Management Limited and Shinning Crown Holdings Inc. (a copy of which has been tabled at the meeting marked “A” and signed by the chairman of the meeting for identification purpose) and all transactions contemplated thereunder, be and are hereby approved, ratified and confirmed, and any one director of the Company (the “**Director(s)**”) be and is authorised to do all such things and take all such actions as he/she may consider necessary or desirable to implement and/or give effect to the Agreement and all transactions contemplated thereunder, including, subject to the Listing Committee of The Stock Exchange of Hong Kong Limited approving the listing of, and granting permission to deal in, the Capitalisation Shares (as defined in the circular of the Company dated 10 March 2023 (the “**Circular**”)), the allotment and issue of the Capitalisation Shares (as defined in the Circular) be and is hereby approved, and any one Director be and is authorised to do all such things and take all such actions as he/she may consider necessary or desirable to implement and/or give effects to any of the matters relating to or incidental to the issue and allotment of the Capitalisation Shares (as defined in the Circular).”
2. “**THAT**, to the extent not already exercised, the mandate to allot and issue shares of the Company given to the Directors at the annual general meeting of the Company held on 27 May 2022 be and is hereby revoked by the mandate **THAT**:
 - (a) subject to paragraph (c) below, pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the exercise by the Directors during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with unissued shares of the Company (the “**Shares**”) and to make or grant offers, agreements and options, including warrants to subscribe for Shares, which might require the exercise of such powers be and the same is hereby generally and unconditionally approved;

NOTICE OF SGM

- (b) the approval in paragraph (a) above shall authorise the board of Directors (the “**Board**”) during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period;

- (c) the total number of Shares allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to options or otherwise), issued or dealt with by the Board pursuant to the approval in paragraph (a) above, otherwise than pursuant to (i) a Rights Issue (as hereinafter defined); or (ii) the exercise of any options granted under the share option scheme of the Company; or (iii) any scrip dividend or similar arrangements providing for the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the bye-laws of the Company (the “**Bye-laws**”) in force from time to time, shall not exceed 20% of the total number of Shares in issue on the date of the passing of this resolution;

- (d) for the purpose of this resolution:

“**Relevant Period**” means the period from the date of the passing of this resolution until whichever is the earlier of:

- (i) the conclusion of the next annual general meeting of the Company;

- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Bye-laws or any applicable laws to be held;
and

- (iii) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the Board by this resolution;

“**Rights Issue**” means an offer of Shares, offer or issue of securities convertible into Shares or options, warrants or other rights or securities to subscribe for securities of the Company open for a period fixed by the board of directors of the Company to holders of securities of the Company on the register on a fixed record date in proportion to their then holdings of securities (subject to such exclusion or other arrangements as the board of directors of the Company may deem necessary or expedient in relation to fractional entitlements, or having regard to any restrictions or obligations under the laws of, or the requirements of, or the expense or delay which may be involved in determining the existence or extent of any restrictions or obligations under the laws of, or the requirements of, any jurisdiction outside Hong Kong or any recognised regulatory body or any stock exchange outside Hong Kong).”

NOTICE OF SGM

CLOSURE OF SHAREHOLDERS' REGISTER

For the purpose of determining the list of shareholders who are entitled to attend and vote at the SGM, the shareholders' register of the Company will be closed on 27 March 2023. No transfer of shares of the Company will be registered during these days. In order to qualify to attend and vote at the SGM, all instruments of transfer together with the relevant share certificate(s) must be lodged with the Company's branch share registrar in Hong Kong, Tricor Abacus Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration no later than 4:30 p.m. on Friday, 24 March 2023.

By order of the Board
GOME Retail Holdings Limited
Zhang Da Zhong
Chairman

Hong Kong, 10 March 2023

Principal place of business in Hong Kong:
Suite 2915, 29th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

NOTICE OF SGM

Notes:

1. Any member of the Company entitled to attend and vote at the SGM is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is holder of two or more shares of the Company may appoint more than one proxy to attend and vote instead of him/her. A proxy need not be a member of the Company.
2. A form of proxy for use at the SGM is enclosed herewith.
3. The form of proxy must be signed by you or your attorney duly authorised in writing or, in the case of a corporation, must be under its seal or the hand of an officer or attorney duly authorised.
4. The form of proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy thereof must be lodged at the Company's branch share registrar in Hong Kong, Tricor Abacus Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, not later than 48 hours before the time appointed for holding the SGM or any adjourned meeting (as the case may be) and in default the proxy shall not be treated as valid. Completion and return of the form of proxy shall not preclude members from attending and voting in person at the SGM or at any adjourned meeting (as the case may be) should they so wish.
5. Where there are joint registered holders of any share, any one of such persons may vote at any meeting, either in person or by proxy, in respect of such share as if he/she was solely entitled thereto; but if more than one of such joint holders be present at the meeting in person or by proxy, the vote of one of the said persons so present whose name stands first on the register of members in respect of such share shall be accepted to the exclusion of the votes of the other joint holders.
6. As at the date of this notice, the Board comprises Ms. Huang Xiu Hong and Mr. Zou Xiao Chun as executive director, Mr. Zhang Da Zhong and Ms. Dong Xiao Hong as non-executive directors, and Mr. Lee Kong Wai, Conway, Ms. Liu Hong Yu and Mr. Wang Gao as independent non-executive directors.
7. Words and expressions that are not expressly defined in this notice shall bear the same meaning as that defined in the circular dated 10 March 2023 published by the Company.