

27 February 2020

*To the Independent Board Committee and the Independent Shareholders of
Season Pacific Holdings Limited*

Dear Sirs,

**MANDATORY UNCONDITIONAL CASH OFFER BY
KINGSTON SECURITIES LIMITED
FOR AND ON BEHALF OF
DA WOLF INVESTMENTS I LIMITED
TO ACQUIRE ALL THE ISSUED SHARES IN
SEASON PACIFIC HOLDINGS LIMITED
(OTHER THAN THOSE ALREADY OWNED OR AGREED TO BE ACQUIRED
BY DA WOLF INVESTMENTS I LIMITED
AND THE PARTIES ACTING IN CONCERT WITH IT)**

A. INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee in respect of the terms of the Offer and as to acceptance, details of which are set out in the Composite Document jointly issued by the Offeror and the Company to the Shareholders dated 27 February 2020 of which this letter forms part. Capitalised terms used in this letter shall have the same meanings ascribed to them in the Composite Document unless the context otherwise requires.

As mentioned in the Joint Announcement, on 17 January 2020, the Vendor and the Offeror entered into the Sale and Purchase Agreement, pursuant to which the Vendor conditionally agreed to sell, and the Offeror has conditionally agreed to acquire, a total of 356,876,000 Sale Shares at the purchase price of HK\$0.55 per Sale Share, for a total cash consideration of HK\$196,281,800. The Sale Shares represent approximately 31.76% of the issued share capital of the Company as at the date of the Joint Announcement. The Completion took place on 13 January 2020 in accordance with the terms of the Sale and Purchase Agreement. The total consideration of HK\$196,281,800 has been paid by the Offeror upon Completion.

Immediately prior to the Sale and Purchase Agreement and Completion, the Offeror and parties acting in concert with it were interested in (a) 308,680,000 Shares, representing approximately 27.46% of the issued share capital of the Company as at the Latest Practicable

Date, in which (i) 86,262,000 Shares were held by the Offeror directly; (ii) 222,418,000 Shares were held by Rapid Raise, and (b) 10,115,000 outstanding Share Options with exercise price at HK\$0.476 per Share were held by Ms. Jiang.

Immediately following Completion and as at the Latest Practicable Date, the Offeror and parties acting in concert with it became interested in (a) a total of 665,556,000 Shares, representing approximately 59.22% of the entire issued share capital of the Company as at the Latest Practicable Date, and (b) 10,115,000 outstanding Share Options with exercise price at HK\$0.476 per Share.

Pursuant to Rule 26.1 of the Takeovers Code, the Offeror is required to make the Offer for all the issued Shares (other than those Shares already owned by or agreed to be acquired by the Offeror and parties acting in concert with it). The Offeror is also required to make an offer for the cancellation of all the Excluded Options pursuant to Rule 13.5 of the Takeovers Code. As a result of the Irrevocable Option Undertakings from the Independent Option Holders, no offer will be made for the Excluded Options under Rule 13.5 of the Takeovers Code.

The Independent Board Committee, comprising all the non-executive Directors (excluding Mr. Li as the Irrevocable Share Undertaking given by Mr. Li may affect his independence as a member of the Independent Board Committee), namely Ms. Chin Ying Ying, Mr. Chang Eric Jackson, Mr. Choi Sheung Jeffrey and Ms. Luk Huen Ling Claire has been established to make a recommendation to the Independent Shareholders as to whether the Offer is, or is not, fair and reasonable and whether the Offer is in the interests of the Independent Shareholders as a whole and as to its acceptance. We have been appointed as the Independent Financial Adviser to advise the Independent Board Committee in respect of the Offer. In our capacity as the Independent Financial Adviser, our role is to give an independent opinion to the Independent Board Committee as to whether the terms of the Offer are fair and reasonable and as to acceptance so far as the Independent Shareholders are concerned and such appointment has been approved by the Independent Board Committee.

As at the Latest Practicable Date, we are not connected with the directors, chief executive and substantial shareholders of the Company and the Offeror or any of their respective subsidiaries or their respective associates or any party acting, or presumed to be acting, in concert with any of them and accordingly, and, as at the Latest Practicable Date, did not have any shareholding, directly or indirectly, in any of their respective subsidiaries or their respective associates and, as at the Latest Practicable Date, did not have any shareholding, directly or indirectly, in any member of the Group or the Offeror or any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group and Offeror. In addition, during the past two years, we have no significant connection, financial or otherwise with the Company or the Offeror or the controlling shareholders of either of them. Apart from normal professional fees payable to us in connection with this appointment as the Independent Financial Adviser to the Independent Board Committee, no arrangement exists whereby we will receive any fees from the Company, its subsidiaries, its associates or their respective substantial shareholders or associates. We are not aware of any relationships or interest between us and the Company and the Offeror or any other parties that could be reasonably be regarded as hindrance to our independence as defined under Rule 13.84 of the Listing Rules and Rule 2 of the Takeovers Code to act as the Independent Financial Adviser to the Independent Board Committee in respect of the Offer.

During the past two years, we were appointed as the independent financial adviser to advise the independent board committee and the independent shareholders of the Company in respect of a discloseable and connected transaction in relation to acquisition of DL Securities (HK) Limited and DA Finance (HK) Limited (the “**Past Appointment**”). The professional fees in connection with the Past Appointment have been fully settled and we are not aware of the existence of or change in any circumstances that would affect our independence. Accordingly, we consider that we are eligible to give independent advice and recommendations on the terms of the Offer and as to acceptance.

B. BASIS OF OUR OPINION AND RECOMMENDATION

In formulating our opinion and recommendation, we have relied on the accuracy of the information and facts contained or referred to in the Composite Document and provided to us by the Company, the Directors and the management of the Company. We have assumed that all information and representations contained or referred to in the Composite Document were true, accurate and complete at the time when they were made and continue to be true, accurate, complete and up to date throughout the Offer Period. Shareholders will be notified of any material changes as soon as possible. We have also assumed that all statements of belief, opinion and intention made by the Directors and the Offeror in the Composite Document were reasonably made after due enquiries and considerations. We have no reasons to doubt that any relevant information has been withheld, nor are we aware of any fact or circumstance which would render the information provided and representations made to us untrue, inaccurate or misleading. We consider that we have reviewed sufficient information to enable us to reach an informed view and to justify reliance on the accuracy of the information contained in the Composite Document and to provide a reasonable basis for our opinions and recommendations. All Directors have declared in a responsibility statement set out in the Appendix IV to the Composite Document that they jointly and severally accept full responsibility for the accuracy of the information contained in the Composite Document (other than the information relating to the Offeror and parties acting in concert with it) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Composite Document (other than opinions expressed by the directors of the Offeror and parties acting in concert with it) have been arrived at after due and careful consideration and there are no other facts not contained in the Composite Document, the omission of which would make any statement in the Composite Document misleading. The sole director and sole shareholder of the Offeror, being Mr. Chen, has declared in a responsibility statement set out in the Appendix III to the Composite Document that he accepts full responsibility for the accuracy of the information contained in this Composite Document (other than that relating to the Group or the Directors), and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this Composite Document (other than that expressed by the Directors) have been arrived at after due and careful consideration and there are no other facts not contained in this Composite Document, the omission of which would make any statement contained in this Composite Document misleading. We have not, however, carried out any independent verification of the information provided by the Company, the Directors and the management of the Company, nor have we conducted an independent investigation into the business and affairs, financial condition and future prospects of the Group and/or the Offeror.

In formulating our opinions, we have not considered the tax implications on the Independent Shareholders arising from acceptances or non-acceptances of the Offer as these are particular to their individual circumstances. It is emphasised that we will not accept responsibility for any tax effect on or liability of any person resulting from his or her acceptance or non-acceptance of the Offer. In particular, the Independent Shareholders who are residents outside Hong Kong or subject to overseas tax or Hong Kong taxation on securities dealings should consider their own tax position, and if in any doubt, should consult their own professional advisers.

In formulating our opinions, our opinions are necessarily based upon the financial, economic, market, regulatory and other conditions as they existed on, and the facts, information, representations, and opinions made available to us as of the Latest Practicable Date. Should there be any subsequent material changes in such information during the Offer Period, the Company will inform the Shareholders as soon as practicable in accordance with Rule 9.1 of the Takeovers Code. The Shareholders will also be informed by us as soon as practicable should there be any material changes to our opinion after the Latest Practicable Date throughout the Offer Period in accordance with Rule 9.1 of the Takeovers Code. Based on the foregoing, we confirm that we have taken all reasonable steps, which are applicable to the Offer, as referred to in Rule 13.80 of the Listing Rules (including the notes thereto).

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

C. PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation to the Independent Board Committee in relation to the terms of the Offer and as to acceptance, we have considered the principal factors and reasons set out below:

1. Business of the Group

The Company is incorporated in the Cayman Islands with limited liability, and the Shares of which are currently listed on the Main Board of the Stock Exchange (stock code: 1709). The Company is an investment holding company and its subsidiaries are principally engaged in sales of apparel products with the provision of supply chain management total solutions to customers and provision of financial services.

2. Historical financial performance of the Group

Set out below are (i) the audited consolidated financial information of the Group for the two years ended 31 March 2019 extracted from the annual report of the Company for the year ended 31 March 2019 (the “**2019 Annual Report**”); and (ii) the unaudited consolidated financial information of the Group for the six months ended 30 September 2019 extracted from the interim report of the Company for the six months ended 30 September 2019 (the “**2020 Interim Report**”):

<i>Table A</i>	For the six months ended 30 September		For the year ended 31 March	
	2019	2018	2019	2018
	(unaudited)	(unaudited)	(audited)	(audited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue	132,746	132,203	186,519	279,382
Gross Profit	10,116	22,603	20,918	54,584
Profit/(loss) attributable to owners of the Company	(47,474)	(3,271)	18,682	15,688
	As at 30 September 2019		As at 31 March	
	(unaudited)		2019	2018
	HK\$'000		(audited)	(audited)
			HK\$'000	HK\$'000
Total assets	181,845		180,456	115,695
Total liabilities	54,466		9,634	33,292
Equity attributable to owner of the Company	127,379		170,822	82,403

Set out below are the revenue by region for the years ended 31 March 2018 and 2019 respectively as extracted from the 2019 Annual Report and the revenue by region for the six months ended 30 September 2018 and 2019 respectively as extracted from the 2020 Interim Report:

<i>Table B</i>	For the six months ended		For the year ended	
	30 September		31 March	
	2019	2018	2019	2018
	(unaudited)	(unaudited)	(audited)	(audited)
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
America	37,008	70,906	87,139	112,055
Europe	88,014	46,361	72,458	81,790
Asia Pacific	2,209	12,483	21,915	44,570
Middle East	<u>5,515</u>	<u>2,453</u>	<u>5,007</u>	<u>40,967</u>
Total revenue	<u>132,746</u>	<u>132,203</u>	<u>186,519</u>	<u>279,382</u>

Audited consolidated results for the two years ended 31 March 2019

The Group's revenue was derived from sales of apparel mainly from America, Europe, Asia Pacific and Middle East. As depicted in the Table B above, for the year ended 31 March 2019, sales to America and Europe was approximately 46.7% and 38.8% of the total revenue respectively, and the remaining sales are approximately 14.5% to Asia and Middle East. As disclosed in the 2019 Annual Report, the Group recorded a decrease in turnover of approximately HK\$92.9 million or 33.2%, from approximately HK\$279.4 million for the year ended 31 March 2018 to approximately HK\$186.5 million for the year ended 31 March 2019. The decrease in revenue was primarily due to the significant continued challenges in the global business environment, but the group was able to make a significant growth in sales to one of the world's largest fashion retailers headquartered in Spain. The Group's gross profit has decreased by approximately HK\$33.7 million, from approximately HK\$54.6 million for the year ended 31 March 2018 to approximately HK\$20.9 million for the year ended 31 March 2019. Such decrease was mainly due to the drop of revenue.

The Group has recorded a profit that attributable to owners of the Company of approximately HK\$18.7 million for the year ended 31 March 2019, representing a year-on-year increase of approximately HK\$3.0 million or 19.1%, which was due to gains on sales of equity security of approximately HK\$11.5 million and fair value gains on equity securities of approximately HK\$26.2 million for the year ended 31 March 2019, offset by the decrease in gross profit as mentioned above.

As at 31 March 2019, the Group recorded total assets, total liabilities and equity attributable to owners of the Company of approximately HK\$180.5 million, HK\$9.6 million and HK\$170.8 million, respectively.

Unaudited consolidated results for the six months ended 30 September 2019

As disclosed in the 2020 Interim Report, for the six months ended 30 September 2019, the Group's revenue remained stable at approximately HK\$132.7 million, represented an increase of approximately HK\$543,000 or 0.4% as compared with HK\$132.2 million for the six months ended 30 September 2018. The Group maintain similar revenues as compared to the corresponding period in 2018, but the proportion of revenues from America has decreased due to the increases in tariffs from the US China trade wars. As depicted in the Table B above, for the six months ended 30 September 2019, the sales to America has dropped by approximately HK\$33.9 million or 47.8%, as compared with the corresponding period in 2018 while the sales to Europe for the six months ended 30 September 2019 increased by approximately HK\$41.7 million or 89.8%, as compared with the corresponding period in 2018. The Group's gross profit decreased by approximately HK\$12.5 million or 55.2% due to an increase of cost of sales by approximately HK\$13.0 million with stable revenue. This was mainly due to diversification of production sources away from China which were more costly due to the increases in tariffs from the US China trade wars.

The Group recorded a loss attributable to owners of the Company of approximately HK\$47.5 million for the six months ended 30 September 2019 as compared to a loss attributable to owners approximately HK\$3.3 million for the six months ended 30 September 2018. Such loss for the six months ended 30 September 2019 was mainly due to the drop of gross profit as mentioned above and losses on sales of equity securities of approximately HK\$34.3 million and fair value losses on equity securities of approximately HK\$3.5 million due to negative returns from investments on securities for the six months ended 30 September 2019.

As at 30 September 2019, the Group recorded total assets, total liabilities and equity attributable to owners of the Company of approximately HK\$181.8 million, HK\$54.5 million and HK\$127.4 million, respectively.

3. Business prospect of the Group

Sale of apparel — market in the US

As mentioned above, the Group's sales in America has dropped due to geo-political problem. The apparel market comprises all clothing segments that are produced for private end customers. On 15 January 2020, the United States and China has signed "ECONOMIC AND TRADE AGREEMENT BETWEEN THE GOVERNMENT OF THE UNITED STATES OF AMERICA AND THE GOVERNMENT OF THE PEOPLE'S REPUBLIC OF CHINA". Following the trade deal, the 10% tariff on imported apparel would continue to be imposed by the US Government at the same level.

In accordance with the news published on 8 October 2019 by CBI (<https://www.cbi.eu/>), due to US-China trade wars, since the start of the trade war, the average retail price of clothing manufactured in China and exported to the US has almost tripled, going from approximately \$25.7 per unit in 2018 to

approximately \$69.5 per unit in 2019. China became strongly specialised in manufacturing high-value items such as outerwear and accessories over the years. While basic apparel production can be relatively easy to move to lower-cost locations, higher-value clothing requires higher specialisation and quality assurance. Part of the textile or apparel might shift to lower cost location, for example Vietnam and Cambodia, for production as compared with China, but part of it would take time to move the factories. The apparel market in the US would continue to be harmed by the tariff as the US Government has no time table or intention to reduce the imposed tariff, which in turn increase the cost of sales of the Group and the industry due to diversification of production sources away from China which were more costly to avoid tariff imposed by the US to China's products.

Sale of apparel — market in Europe

In accordance with World Trade Statistical Review 2019 published by World Trade Organisation, the European Union is the world's largest importer of apparel and textiles, accounting for approximately 23.1% of the world's apparel and textile imports value in 2018. The growth rate of overall import volume to Europe (Euro area, excluding United Kingdom) has decreased from approximately 2.9% in 2017 to approximately 1.0% in 2018. European Union remains the top importer of textiles in the world with the value amounting approximately US\$34.9 billion in 2000 to approximately US\$23.1 billion in 2018 while the US, the second top importer, had import value of approximately US\$9.7 billion in 2000 and approximately US\$9.1 billion in 2018. Moreover, European Union remains the top importer of clothing. The value of such import to the EU was approximately US\$41.1 billion in 2000 and approximately US\$38.4 billion in 2018. Despite the remain of the top status in textile and clothing importer, the EU's import value has been decreasing since 2000. In accordance with World Economic Situation and Prospects 2020 published on 16 January 2020 by the United Nations, the growth of world output and gross domestic product (GDP) in 2019 is expected to be 2.3%, a decrease of 0.7% as compared with 2018 (3.0%). The forecast of the growth in world's GDP in 2020 would be 2.5%, a decrease of 0.5% as compared with 2018. With the uncertainty of world trade and unexpected geo-political situation, the market in Europe remains uncertainty.

Taking into consideration the factors as mentioned above, we are of the opinion that the future performance of the Group remains uncertain.

4. Information on the Offeror

Reference is made to the section headed "5. Information on the Offeror" in the "Letter from Kingston Securities" of the Composite Document.

The Offeror is an investment holding company incorporated in BVI with limited liability. It is principally engaged in investment holding and holds in aggregate of 443,138,000 Shares as at the Latest Practicable Date. As at the Latest Practicable Date, Mr. Chen is the sole director and also the legal and beneficial owner of the entire issued share capital of the Offeror.

5. Intention of the offeror in relation to the group

(i) Business

Reference is made to section headed “6. Intention of the Offeror in relation to the Group:” in the “Letter from Kingston Securities” of the Composite Document. Immediately after the Completion, the Offeror became the Controlling Shareholder of the Company. After the close of the Offer, the Offeror intends to continue the existing principal business of the Group.

The Offeror intends to retain the majority of the senior management of the Group to continue the business of the Group and will also consider appointing additional Directors with the relevant expertise as and when appropriate. The Offeror has no intention to (i) discontinue the employment of any employee (save for in the ordinary course of business and the proposed changes to the composition of the Board); or (ii) dispose or redeploy the assets of the Group. In addition, neither the Offeror nor Mr. Chen has any intention, understanding, negotiation or arrangement (concluded or otherwise) to downsize, cease or dispose of any of the existing businesses or assets of the Group.

The Offeror will conduct a detailed strategic review of the operations of the Group and formulate feasible business strategies with a view to optimise the value of the Group, which may include but not limited to exploring new business opportunities in financial, supply chain, retail and real estate sectors. As at the Latest Practicable Date, the Offeror has no definitive proposal with regard to the injection of any assets or businesses into the Group, and the Company has not formed any particular plan, strategy or identified target regarding its future development.

Moreover, as stated in the “Letter from the Board”, the Board is pleased with the intention of the Offeror. The Board will cooperate and provide support to the Offeror as regards to the Offeror’s intention regarding the Group and the employees of the Group and is will to co-operate with the Offeror in the interests of the Group and the Shareholders as a whole.

(ii) Maintain listing of the Group

Reference is made to section headed “8. Maintaining the Listing Status of the Company” in the “Letter from Kingston Securities” of the Composite Document.

The Stock Exchange has stated that if, at the close of the Offer, less than the minimum prescribed percentage applicable to the Company, being 25% of the issued Shares, are held by the public, or if the Stock Exchange believes that:

- a. false market exists or may exist in the trading of the Shares; or
- b. there are insufficient Shares in public hands to maintain an orderly market,

it will consider exercising its discretion to suspend dealings in the Share.

The Offeror intends the Company to remain listed on the Stock Exchange. Mr. Chen, the sole director of the Offeror and also the new Director to be appointed to the Board as nominated by the Offeror, will undertake to the Stock Exchange to take appropriate steps to ensure that sufficient public float exists in the Shares. In addition, the Directors will jointly and severally undertake to the Stock Exchange to take appropriate steps while they remain in the Board to ensure that sufficient public float exists in the Shares.

Therefore, in the event that the public will hold less than 25% of the Shares upon closing of the Offer, the Offeror intends to dispose of such number of Shares through placing to ensure that the public float requirement under the Listing Rules can be met as soon as practicable after close of the Offer. Further announcement(s) will be made in this regard as and when appropriate in compliance with the Listing Rules.

6. Proposed change to the Board composition

The Board is currently made up of two executive Directors, two non-executive Director and three independent non-executive Directors. The Offeror intends to nominate a new Director for appointment to the Board with effect from the earliest time permitted under the Takeovers Code.

As set out in the “6. Intention of the Offeror in Relation to the Group” in the “Letter from Kingston Securities” of the Composite Document, the Offeror intends to nominate Mr. Chen to be new executive Director of the Company. The appointment of the new executive Director will take effect after the despatch of the Composite Document. Any changes to the composition of the Board will be made in compliance with the Takeovers Code and the Listing Rules.

Further details on the new executive Director’s biography are set out in the above-mentioned sub-section in the “Letter from Kingston Securities” of the Composite Document. There could be uncertainties with the direction and strategies the Offeror will take after its review considering that the new executive Director do not have previous experience in the current principal businesses of the Company (i.e. sales of apparel) as his occupation were mainly involved in finance services. Although, all the current Directors will remain in the Board, there could be uncertainties in how such change will affect the current employees as well as the operations of the Group going forward.

In light of the above-mentioned, we are of the view that there could be uncertainties in the management which could directly affect the operation of the Company.

7. Principal terms of the Offer

Kingston Securities, on behalf of the Offeror, makes the Offer to all the Independent Shareholders for all the issued Shares (other than those Shares already owned by the Offeror and parties acting in concert with it) in compliance with Rule 26.1 of the Takeover Code on the following terms:

(i) Consideration of the Offer

For each Offer Share..... HK\$0.55 in cash

The Offer is unconditional in all respects and is extended to all Shares in issue (other than those already owned by the Offeror and parties acting in concert with it) on the date of despatch of this Composite Document. The Shares to be acquired under the Offer shall be fully paid and shall be acquired free from all Encumbrances, rights of pre-emption and any other third party rights of any nature and together with all rights attaching to them on the date on which the Offer is made or subsequently becoming attached to them, including the right to receive in full all dividends and other distributions, if any, declared, made or paid on or after the date on which the Offer is made, being the date of posting this Composite Document.

As at the Latest Practicable Date, Mr. Li holds 102,154,000 Shares and Mr. Tan holds 42,000,000 Shares, representing approximately 9.09% and 3.74%, respectively of the entire issued share capital of the Company. As at the Latest Practicable Date, Mr. Li and Mr. Tan have respectively given their Irrevocable Share Undertaking in favour of the Offeror, pursuant to which they have undertaken that they (i) shall not accept the Offer in respect of the Excluded Shares; (ii) shall not sell, transfer or otherwise dispose of, or charge, pledge or otherwise encumber, or grant any option or other right over the Excluded Shares, and (iii) shall not otherwise make the Excluded Shares available for acceptance under the Offer.

As at the Latest Practicable Date, the Independent Option Holders held in aggregate 142,706,000 outstanding Share Options, and they have respectively given Irrevocable Option Undertakings in favour of the Offeror, pursuant to which they have undertaken not to accept the offer in relation to the Excluded Options or exercise the rights attaching to the Excluded Options from the date of the Irrevocable Option Undertakings until the Closing Date.

Save for the Irrevocable Undertakings, the Offeror has not received any indication or irrevocable commitment from any Shareholder that he/she/it will accept or reject the Offer as at the Latest Practicable Date.

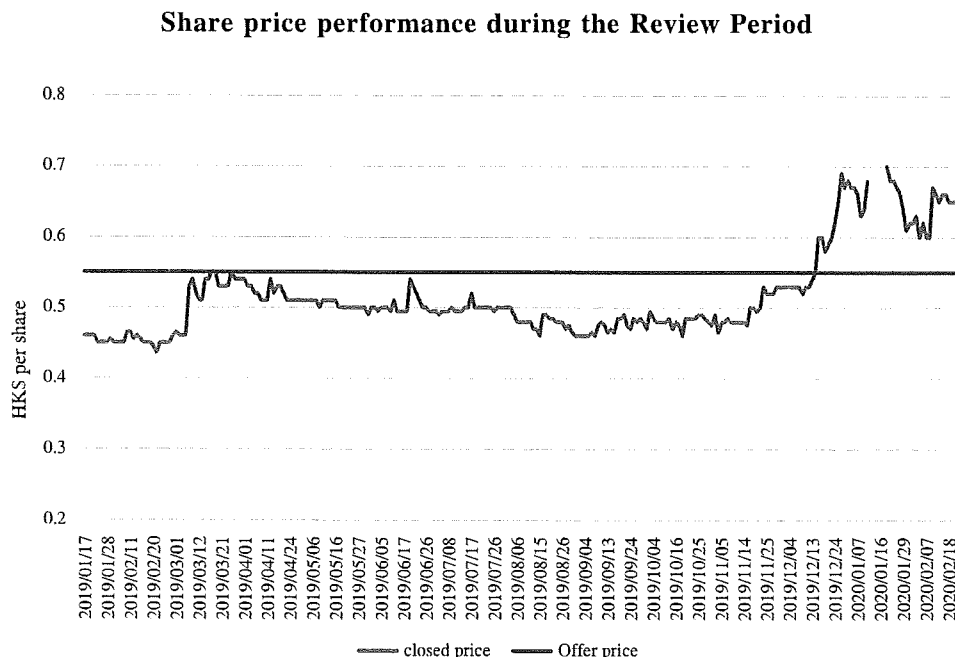
(ii) *Comparisons of value*

The Offer Price of HK\$0.55 per Offer Share represents:

- (i) a discount of approximately 14.06% to the closing price of HK\$0.64 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) a discount of approximately 19.12% over the closing price of HK\$0.680 per Share as quoted on the Stock Exchange on 10 January 2020, being the Last Trading Day;
- (iii) a discount of approximately 16.16% over the average closing price of approximately HK\$0.656 per Share as quoted on the Stock Exchange for the last five trading days immediately prior to and including the Last Trading Day;
- (iv) a discount of approximately 17.17% over the average closing price of approximately HK\$0.664 per Share as quoted on the Stock Exchange for the last ten trading days immediately prior to and including the Last Trading Day;
- (v) a discount of approximately 6.62% over the average closing price of approximately HK\$0.589 per Share as quoted on the Stock Exchange for the last 30 trading days immediately prior to and including the Last Trading Day;
- (vi) a premium of approximately 2.23% over the average closing price of approximately HK\$0.538 per Share as quoted on the Stock Exchange for the last 60 trading days immediately prior to and including the Last Trading Day; and
- (vii) a premium of approximately 261.84% over the audited consolidated net asset value of the Group of approximately HK\$0.152 per Share as at 31 March 2019 calculated based on the audited consolidated net asset value of the Group as at 31 March 2019 of approximately HK\$170,822,000 and 1,123,800,000 Shares in issue as at the Latest Practicable Date.

8. Historical price performance of the Shares

The chart below illustrates the closing price levels of the Shares as quoted on the Stock Exchange from the twelve-month period preceding the closing date of the Offer, being the period of 17 January 2019 to Latest Practicable Date (the “**Review Period**”):



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

As shown in the chart above, the highest and lowest closing prices of the Shares during the Review Period were HK\$0.70 on 20 January 2020 and HK\$0.435 on 21 February 2019. The Offer Price therefore represents a discount of approximately 21.43% to the highest closing price of the Shares and a premium of approximately 26.44% over the lowest closing price of the Shares during the Review Period.

During the Review Period, from 17 January 2019 to 16 December 2019 (the “**First Period**”), the closing price of the Share fluctuated from HK\$0.435 to HK\$0.55. The highest closing price during the First Period was recorded on 18, 19, 26 March and 16 December 2019. During the First Period, the average closing price was HK\$0.493. Following the First Period, the Share price jumped to HK\$0.6. From 17 December 2019 to the Latest Practicable Date (the “**Second Period**”), it ranged from HK\$0.58 to HK\$0.7. It is noted that, during the Second Period, the overall trend of closing price was increasing. It rose to HK\$0.7 until 20 January 2020 and began to drop. In addition to the closing price, we noted that on 20 January 2020 the day range of the share price was from HK\$0.62 to HK\$0.97. After having made enquiry with the Company, the Company was unaware of any reasons for the surge in the prices of the Shares during the period.

We noted that the Offer Price had been higher than or equal to the daily closing prices during the First Period, but lower than the daily closing prices during the Second Period. The Offer Price of HK\$0.55 represents (i) a discount of approximately 21.43% over the highest closing price; and (ii) a premium of approximately 26.44% to the lowest closing price during the Review Period. Despite that the Offer Price was below daily closing price during the Second Period, representing 40 trading days (excluding 13 to 17 January 2020, being the trading halt), the Offer Price was generally above the daily closing price during the First Period, representing 226 trading days. Based on the aforesaid analysis, we considered that the closing prices have been fluctuating, with the Offer Price being above the closing prices of the Shares for 226 out of 266 trading days within the Review Period and was above the average closing price of HK\$0.514 during the Review Period.

Since the publication of the Joint Announcement and up to the trading day immediately preceding the Latest Practicable Date (the “**Post-Announcement Period**”), we noted that the closing prices of the Shares have decreased and ranged from HK\$0.6 to HK\$0.7 per share, representing a premium of approximately 9.09% and 27.27% respectively over the Offer Price. After having enquired with the Company, it was unaware of any reasons for the decrease in the prices of the Shares during the Post-Announcement Period. Given that the decrease in the prices of the Share happened during the Post-Announcement Period after the publication of the Joint Announcement and the Company also did not announce any other significant news during the Post-Announcement Period, we are of the view that such decrease in the prices of the Shares in the Post-Announcement Period was highly likely due to normal profit taking action as the price has increased from HK\$0.6 on 17 December 2019 to HK\$0.7 on 20 January 2020, representing an approximately 16.67% increase. In this connection, we consider that in the absence of any significant positive events and the Offer, there is no assurance that the closing prices of the Shares will continue to rise or maintain at a level equal to or above the Share Offer Price after the Latest Practicable Date or after closing of the Offer. Accordingly, we also consider the price trend prior to the publication of the Joint Announcement in the Pre-Announcement Period more appropriately reflects the general price trend of the Company.

Independent Shareholders who wish to realise their investment in the Group are reminded that they should carefully and closely monitor the market price of the Group during the Offer Period and consider selling their Shares in the open market during the Offer Period, rather than accepting the Offer, if the net proceeds from the sale of such Shares in the open market would exceed the net amount receivable under the Offer.

9. Liquidity of the Shares

The table below sets out the average daily trading volume of the Shares during the Review Period, and the percentage as represented by such average daily trading volume to the total number of Shares in issue at the corresponding month.

	Total trading volume (Note 2) (Thousands Shares)	Number of trading days	Average Daily Volume (Note 1) (Thousands Shares)	Approximately % of average daily trading volume to total number of issued Shares (Note 3)	Approximately % of average daily trading volume to total number of Shares held by public Shareholders (Note 4)
2019					
January (commencing from 17 January 2019)	58,262	11	5,297	0.47%	1.49%
February	54,994	17	3,235	0.29%	0.91%
March	320,221	21	15,249	1.36%	4.28%
April	34,808	19	1,832	0.16%	0.51%
May	46,669	21	2,222	0.20%	0.62%
June	65,352	19	3,440	0.31%	0.97%
July	28,433	22	1,292	0.12%	0.36%
August	25,936	22	1,179	0.10%	0.33%
September	37,936	21	1,806	0.16%	0.51%
October	37,113	21	1,767	0.16%	0.50%
November	103,952	21	4,950	0.44%	1.39%
December	245,962	20	12,298	1.09%	3.45%
2020					
January (Note 5)	18,833	15	1,256	0.11%	0.35%
February (up to the Latest Practicable Date)	21,578	16	1,349	0.12%	0.38%

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

Notes:

- (1) Average daily trading volume is calculated by dividing the total trading volume for the month/period by the number of trading days during the month/period which excludes any trading day on which trading in the Shares on the Stock Exchange was suspended for the whole trading day
- (2) Total trading volume for the month/period is sourced from the website of the Stock Exchange.

- (3) Based on 1,123,800,000 Shares in issue as at the Latest Practicable Date.
- (4) Based on 356,090,000 Shares held by the public as at the Latest Practicable Date.
- (5) Trading in Shares was halted from 13 January 2020 to 17 January 2020 (both days inclusive).

As illustrated from the above table, the average daily trading volume of the Shares during the Review Period ranged from approximately 1,178,909 Shares to approximately 15,248,605 Shares, representing approximately 0.10% and approximately 1.36% of the total number of Shares in issue as at the corresponding month respectively, and approximately 0.33% and 4.28% of the total number of Shares held by the public Shareholders. The average daily trading volume of Shares during the Review Period was generally thin.

Given the thin historical average daily trading volume of the Shares, it is uncertain that the overall liquidity of the Shares could be maintained and that there would be sufficient liquidity in the Shares for the Independent Shareholders to dispose of a significant number of Shares in the open market without exerting a downward pressure on the Share price. We, therefore, consider that the Offer provides the Independent Shareholders with an assured exit if they wish to realise their investments in the Shares.

10. Comparable analysis

In order to assess the fairness and reasonableness of the Offer Price, we considered using the equity value multiples, namely, price-to-earnings ratio (“**P/E Ratio**”), price-to-sales ratio (the “**P/S Ratio**”) and price to book ratio (the “**P/B Ratio**”), which are the most commonly used benchmarks in assessing the financial valuation of a company to compare the Offer Price against the market valuation of other comparable companies as the data for calculating the ratios can be obtained fairly and directly from publicly available information. However, given that the P/B Ratio is mainly used in evaluating capital intensive business, since the cash and cash equivalents represented approximately 28.97% of the Company’s total assets as at 31 March 2019, but the property, plant and equipment represented approximately 0.62% of its total assets as at 31 March 2019, we consider the business model of the Company is asset-light and P/B Ratio is not applicable for comparison purpose in assessing the fairness and reasonableness of the Offer Price.

We have conducted a research to identify comparable companies listed on the Stock Exchange which are primarily engaged in businesses similar to those of the Group based on the criteria that the comparable companies will need to be (i) engaged in sales of apparel, excluding specialized products, revenue of which represent at least 70% of total sales; (ii) having the revenue not concentrated in one region; (iii) having a market capitalization below HK\$1,000 million in view of that the market capitalisation of the Company was approximately HK\$618 million as at the Latest Practicable Date; and (iv) recorded profit for their latest respective financial year. We consider it appropriate to set a market capitalization of the comparable companies of no more than HK\$1,000 million, having considered the market capitalisation of the Company of approximately HK\$618 million based on the Offer Price, as this enables a more levelled comparison against the Company while still obtaining a sufficient number of comparable companies.

In this regard, we have identified two companies (the “Comparable Companies”) based on our research on the website of the Stock Exchange in accordance with the above-mentioned four criteria, namely Crocodile Garments Limited (SEHK: 0122) and YGM Trading Limited (SEHK: 0375), which we consider to be exhaustive.

Whilst the scale of operations, financial position, market capitalisation and future prospects of the Comparable Companies are not exactly the same as the Company, given that we have included all available Comparable Companies listed on the Stock Exchange based on our selection criteria, we are of the view that the Comparable Companies serve as a reference in assessing the fairness and reasonableness of the Offer Price and also that the list of Comparable Companies is fair, sufficient and representative sample.

Company name (Stock Code)	Principal business	Market capitalisation as at the Latest Practicable Date	Turnover for the preceding financial year	P/S Ratio	Profit/(loss) Attributable to shareholders for the preceding financial year	P/E Ratio
		(HK\$ million)	(HK\$ million)	(times)	(HK\$ million)	(note 4)
		(i)	(ii)	(iii)=(i)/(ii)	(iv)	(v)=(i)/(iv)
Crocodile Garments Limited (122)	Manufacture, retail and wholesale of fashions in Hong Kong, Macau and Mainland China	459.6	235.3	2.0	30.6	15.0
YGM Trading Limited (375)	Retail and wholesaling of branded garments and accessories	585.5	360.7	1.6	91.1	6.4
	Maximum			2.0		15.0
	Minimum			1.6		6.4
	Average			1.8		10.7
The Group	Sale of apparel	618.1 (Note 1)	186.5	3.3 (the “Implied P/S”)	18.7	33.1 (the “Implied P/E”)

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

Notes:

1. Calculated by the Offer Price of HK\$0.55 per Offer Share multiplied by the total number of issued Shares of 1,123,800,000 as at the Latest Practicable Date.

P/S Ratio

As illustrated in the table set out above, the P/S Ratio of the Comparable Companies ranged from approximately 1.6 times to approximately 2.0 times, with an average of approximately 1.8 times. Accordingly, the Implied P/S Ratio of approximately 3.3 times is higher than the average P/S of approximately 1.8 times and the highest among Comparable Companies.

P/E Ratio

As illustrated in the table set out above, the P/E Ratio of the Comparable Companies ranged from approximately 6.4 times to approximately 15.0 times, with an average of approximately 10.7 times. Accordingly, the Implied P/E of approximately 33.1 times is higher than the average P/E Ratio of approximately 10.7 times and the highest among Comparable Companies.

In light of the above, we are of the view that the Offer price is fair and reasonable so far as the Independent Shareholders are concerned.

11. Recommendation

Taking into consideration the abovementioned factors and reasons for the Offer, in particular:

- (i) when compared to the corresponding periods in 2019, the Group's net profit for the year ended 31 March 2019 increased by approximately 19.1% and the Group recorded an unaudited net loss for the six months ended 30 September 2019 mainly due to (a) decreasing in gross profit; and (b) the difficult business environment due to the US China trade wars;
- (ii) there could be uncertainties in the management of the Group given that the proposed new executive Director of the Group do not have any previous experience in the current principal business of the Group;
- (iii) based on our research on the industry and business prospect, we noted that unfavourable factors including imposed US tariff on China's products and uncertain world trade and geo-political situation as mentioned above in the "Business prospect of the Group". The Group is facing uncertainties and severe competitive business environment in the near future;
- (iv) the Offer Price represents a premium of approximately 261.84% over the audited consolidated net asset value of the Group of approximately HK\$0.152 per Share as at 31 March 2019 calculated based on the audited consolidated net asset value of the Group as at 31 March 2019 of approximately HK\$170,822,000 and 1,123,800,000 Shares in issue as at the Latest Practicable Date;
- (v) the Offer represents an opportunity for Shareholders to realise their investment since Shareholders may not be able to dispose large quantities of Shares without exerting downward pressure on the price of Shares in the open market given the low liquidity of the Shares; and

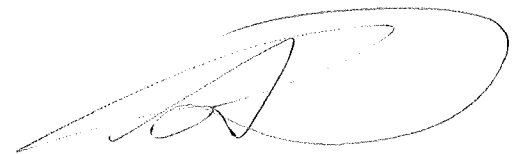
- (vi) the Offer price is fair and reasonable with the comparison of P/S Ratio and P/E Ratio of the Comparable Companies,

we are of the view that the terms of the Offer are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to accept the Offer.

The Independent Shareholders, in particular those who intend to accept the Offer, are reminded to note the recent fluctuation in the price of the Shares. Since Post-Announcement Period, the Share price are higher than the Offer Price. As such, we would like to remind the Independent Shareholders to closely monitor the market price and liquidity of the Shares during the Offer Period, and consider selling their Shares in the open market, if the net proceeds from the sale of such Shares in the market would exceed the net proceeds receivable under the Offer. Nevertheless, given that the trading volume of the Shares has been thin during the Review Period, Independent Shareholders should be mindful as to whether there will be sufficient liquidity in the Shares for the Independent Shareholders who wish to realise part or all of their investment in the Company at the prevailing market price of the Shares and whether their disposal of the Shares will exert a downward pressure on the market price of the Shares.

The Independent Shareholders are also reminded that their decisions to dispose or hold their investment in the Shares are subject to their individual circumstances and investment objectives and they are reminded to carefully (i) monitor the stock market and the trading price and liquidity of the Shares before the end of the Offer and consider selling their Shares in the open market, where possible, rather than accepting the Offer if the net proceeds from the market sale of their Shares after deducting all transaction costs are more than the net amount to be received under the Offer; and (ii) evaluate the future prospects of the Group. The Independent Shareholders should read carefully the procedures for accepting the Offer as detailed in the Composite Document, the appendices to the Composite Document and the Form of Acceptance, if they wish to accept the Offer.

Yours faithfully,
For and on behalf of
Vinco Capital Limited



Alister Chung
Managing Director

Note: Mr. Alister Chung is a licensed person registered with the Securities and Future Commission of Hong Kong and a responsible officer of Vinco Capital Limited to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and has participated in and completed various advisory transactions involving companies listed in Hong Kong in respect of the Takeovers Code for over 10 years.