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20 December 2023

To the Independent Board Committee

C.banner International Holdings Limited
Suite 1503, Level 15
Admiralty Centre Tower 1
18 Harcourt Road
Admiralty, Hong Kong

Dear Sir or Madam,

**VOLUNTARY CONDITIONAL CASH OFFER BY
FIRST SHANGHAI SECURITIES LIMITED
FOR AND ON BEHALF OF
ORCHID VALLEY HOLDINGS LIMITED
TO ACQUIRE ALL THE ISSUED SHARES OF
C.BANNER INTERNATIONAL HOLDINGS LIMITED
(OTHER THAN THOSE SHARES ALREADY OWNED BY
ORCHID VALLEY HOLDINGS LIMITED
AND CERTAIN PARTIES ACTING IN CONCERT WITH IT)**

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee in respect of the Offer. Our appointment as the independent financial adviser has been approved by the Independent Board Committee as set out in the announcement of the Company dated 6 December 2023. Details of the Offer are set out in the "Letter from the Board" contained in the Composite Document dated 20 December 2023, of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Composite Document unless the context requires otherwise.

香港中環永和街21號

The Offer

First Shanghai Securities is making the Offer with the Offer Price of HK$0.16 in cash for and on behalf of the Offeror in compliance with the Takeovers Code.

Reference is made to the Rule 3.5 Announcement issued by the Company and the Offeror in relation to, among others, the Offer. For the principal terms of the Offer, together with the information of the Offeror and the Offeror's intention regarding the Group, please refer to the "Letter from First Shanghai" contained in the Composite Document.

THE INDEPENDENT BOARD COMMITTEE

The Company has established the Independent Board Committee comprising Mr. Kwong Wai Sun Wilson, Mr. Xu Chengming and Mr. Zheng Hongliang, all independent non-executive Directors, to advise the Disinterested Shareholders as to whether the terms of the Offer are fair and reasonable, and as to the acceptance of the Offer.

THE INDEPENDENT FINANCIAL ADVISER

As the Independent Financial Adviser with respect to the Offer, our role is to provide the Independent Board Committee with an independent opinion and recommendation as to whether the terms of the Offer are fair and reasonable and as to the acceptance of the Offer.

We (i) are not associated or connected, financially or otherwise, with the Company or the Offeror, their respective controlling shareholders or any parties acting, or presumed to be acting, in concert with any of them; and (ii) have not acted as the financial adviser or independent financial adviser in relation to any transaction of the Company or the Offeror, their respective controlling shareholders or any parties acting in concert with any of them in the last two years prior to the date of the Composite Document. Pursuant to Rule 13.84 of the Listing Rules and Rule 2.6 of the Takeovers Code, and given that (i) the remuneration for our engagement to opine on the Offer is at market level and not conditional upon the outcome of the Offer; (ii) no arrangement exists whereby we shall receive any fees or benefits from the Company (other than our said remuneration) or the Offeror, their respective controlling shareholders or any parties acting in concert with any of them; and (iii) our engagement is on normal commercial terms and approved by the Independent Board Committee, we are independent of the Company and the Offeror, their respective controlling shareholders or any parties acting in concert with any of them, and can act as the independent financial adviser to the Independent Board Committee in respect of the Offer.

BASIS OF OUR ADVICE

In formulating our opinion, we have reviewed, amongst others (i) the annual reports of the Company for the years ended 31 December 2021 and 2022 (the "**2021 Annual Report**" and "**2022 Annual Report**"); (ii) the interim report of the Group for the six months ended 30 June 2023 (the "**2023 Interim Report**"); and (iii) other information contained or referred to in the Composite Document.

We have relied on the statements, information, opinions and representations contained or referred to in the Composite Document and/or provided to us by the Company, the Directors and the management of the Company (collectively the "**Management**"). We have assumed that all statements, information, opinions and representations contained or referred to in the Composite Document and/or provided to us were true, accurate and complete in all material aspects at the time they were made and continued to be so as at the Latest Practicable Date. The Company will notify the Disinterested Shareholders of any material changes to information contained or referred to in the Composite Document as soon as practicable in accordance with Rule 9.1 of the Takeovers Code. The Disinterested Shareholders will also be informed as soon as practicable when there are any material changes to the information contained or referred to herein as well as changes to our opinion, if any, after the Latest Practicable Date, and before the despatch of the Composite Document.

We have no reason to believe that any statements, information, opinions or representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material fact the omission of which would render the statements, information, opinions or representations provided to us untrue, inaccurate or misleading. We have assumed that all the statements, information, opinions and representations for matters relating to the Company contained or referred to in the Composite Document, and information relating to the Company provided to us by the Company and the Management have been reasonably made after due and careful enquiry. We have relied on such statements, information, opinions and representations and consider that we have been provided with and have reviewed sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not conducted any independent investigation into the business, financial conditions and affairs or the future prospects of the Group.

We have not considered the taxation implications on the Disinterested Shareholders arising from acceptance or non-acceptance of the Offer, if any, and therefore we will not accept responsibility for any tax effect or liability that may potentially be incurred by the Disinterested Shareholders as a result of the Offer. In particular, the Disinterested Shareholders who are subject to Hong Kong or overseas taxation on dealings in securities are urged to seek their own professional adviser on tax matters.

PRINCIPAL FACTORS AND REASONS CONSIDERED FOR THE PROPOSAL

1. Background information of the Company

1.1 Principal activities

The Company is the holding company of the Group. The Group is a leading international integrated retailer and wholesaler of mid-to-premium women's formal and casual footwear in China. The Group distributes self-developed brand products through department stores and independent retail stores in different cities in China, and also acts as an original equipment manufacturer (OEM) or original design manufacturer (ODM) for international shoes companies dealing in export markets. The Group operates its self-developed brands, which include C.banner, EBLAN, sundance, MIO, Badgley Mischka and natursun.

1.2 Financial information

Set out below is a summary of the financial information of the Group as extracted from the (i) 2021 Annual Report; (ii) 2022 Annual Report; and (iii) 2023 Interim Report respectively.

	For the year ended 31 December			For the six months ended 30 June	
	2020	**2021**	**2022**	**2022**	**2023**
	(audited)	(audited)	(audited)	(unaudited)	(unaudited)
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
Revenue	1,539,368	1,629,120	1,381,742	715,141	787,909
– Retail and wholesale	1,379,398	1,438,855	1,152,714	596,874	697,092
– Contract manufacturing	112,198	146,106	193,149	101,731	63,037
– Retail of toys	47,772	44,159	35,879	16,536	27,780
Other income and expenses and other gains and losses	75,832	58,313	55,008	27,499	32,648
– Government grant	29,788	30,771	19,845	8,362	14,544
– Government reward	–	–	–	–	7,000
– Gain/(loss) on modification of right-of-use assets and lease liabilities	11,808	(162)	(28)	(28)	–
– Net foreign exchange gain/ (loss)	(5,373)	(2,628)	8,658	4,720	1,753
– Loss on modification of long-term trade debts	–	–	(9,896)	–	(9,321)
– Interest income of long-term trade debts	3,023	7,453	9,178	3,207	4,526
Distribution and selling expenses	(801,778)	(830,441)	(694,879)	(355,147)	(372,543)
Administrative and general expenses	(137,344)	(117,136)	(107,185)	(50,850)	(51,550)
Profit for the year/period	5,605	28,790	14,766	23,984	45,156

	For the year ended 31 December			As at 30 June
	2020	**2021**	**2022**	**2023**
	(audited)	(audited)	(audited)	(unaudited)
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
Total assets	1,762,817	1,745,652	1,718,605	1,767,684
– Trade debts due from a former subsidiary	338,099	247,008	215,601	206,774
Total liabilities	435,539	391,058	344,545	346,713
Net assets	1,327,278	1,354,594	1,374,060	1,420,971

*Year ended 31 December 2021 ("**FY2021**") compared to year ended 31 December 2020 ("**FY2020**")*

The Group's revenue increased by approximately 5.8% in FY2021 as compared to FY2020. Such increase represented moderate recovery amidst the continuous impact of the COVID-19 pandemic. In particular, revenue of the largest retail and wholesale segment increased by approximately 4.3% which underpinned the majority of the recovery of the Group's revenue during the year, while the smaller contract manufacturing segment experienced strong growth of 30.2%.

Net profit of the Group for FY2021 improved significantly to approximately RMB28.8 million from approximately RMB5.6 million for FY2020, which was mainly due to (i) the increase in total revenue; (ii) the improvement of gross profit margin from 55.9% to 57.9% due to improvement in gross profit margin of the retail and wholesale segment; and (iii) decrease of administrative and general expenses of approximately RMB20.2 million due to the decrease in lease expenses and the streamlining of the organisation, offset by (i) the increase in distribution and selling expenses due to the reduction of social insurance relief policies; and (ii) decrease in other income and expenses and other gains and losses mainly due to the absence of gain on modification of right-of use assets and lease liabilities in FY2021.

As at 31 December 2021, net assets of the Group increased to approximately RMB1,354.6 million from approximately RMB1,327.3 million as at 31 December 2020, generally in line with the operating results of the Group.

*Year ended 31 December 2022 ("**FY2022**") compared to FY2021*

The Group's revenue decreased by approximately 15.2% in FY2022 as compared to FY2021. Revenue of the retail and wholesale segment decreased from approximately RMB1,438.9 million in FY2021 to approximately RMB1,152.7 million in FY2022, representing a decrease of approximately 19.9%. Such decrease was predominantly due to the continuous impact of the COVID-19 pandemic which had an adverse impact on revenue. For instance, the pandemic resulted in shortening of store opening hours or temporary closure of stores in some cases, limited logistics which affected transportation of products and reduced customer flow.

Net profit of the Group for FY2022 decreased significantly to approximately RMB14.8 million from approximately RMB28.8 million for FY2021, which was mainly due to a combined effect of (i) the decrease in total revenue; (ii) the deterioration of gross profit margin from 57.9% to 55.5% due to the decrease in the proportion of revenue from retail and wholesale segment, which has higher gross profit margin; (iii) the decrease in government grants of approximately RMB11.0 million; and (iv) the loss on modification of long-term trade debts (the "**Trade Debts**") due from a former subsidiary of the Group of approximately RMB9.9 million, offset by (i) the decrease of distribution and selling expenses of approximately RMB135.6 million due to the decrease in channel fees and salary expenses as a result of the decrease in revenue; and (ii) the net foreign exchange gain of approximately RMB8.7 million.

As at 31 December 2022, net assets of the Group increased to approximately RMB1,374.1 million from approximately RMB1,354.6 million as at 31 December 2021. Such increase was generally in line with the operating results of the Group.

*Six months ended 30 June 2023 ("**1H 2023**") compared to six months ended 30 June 2022 ("**1H 2022**")*

The Group's revenue recovered from approximately RMB715.1 million for 1H 2022 to approximately RMB787.9 million for 1H 2023. This was mainly attributed to the improvement in revenue from its largest segment of retail and wholesale business, which was previously adversely affected by the COVID-19 pandemic. For instance, the pandemic impacted store opening hours, store availabilities and customer flows. Revenue level partially recovered in 1H 2023 as the COVID-19 pandemic progressively subsided resulting in the lifting of pandemic-related restrictions.

The net profit of the Group increased from approximately RMB24.0 million for 1H 2022 to approximately RMB45.2 million for 1H 2023. We noted that other than changes in revenue level, the Group's net profit had mainly been affected by government grants and government rewards, as well as loss on modification of the Trade Debts. These Trade Debts amounted to approximately RMB215.6 million and RMB206.8 million as at 31 December 2022 and 30 June 2023 respectively. The repayment date of the Trade Debts had previously been extended twice from the original due date on 31 May 2022 to 31 May 2024 currently.

In particular, as compared with 1H 2022, the increase in net profit in 1H 2023 of approximately RMB21.2 million was attributable to the combined effect of (i) an increase in total revenue; (ii) an increase in government grant and government reward of approximately RMB13.2 million; and (iii) a loss on modification of the Trade Debts of approximately RMB9.3 million due to a further extension of repayment date in February 2023.

As at 30 June 2023, the Group recorded net assets of approximately RMB1,421.0 million, representing an increase of approximately 3.2% as compared to approximately RMB1,374.1 million as at 31 December 2022. Such increase was generally in line with the operating results of the Group.

Overall, we observed that the financial performance of the Group had fluctuated between FY2020 and FY2022, generally affected by the onset of the COVID-19 pandemic. Profitability had improved more recently in 1H FY2023 as the Group emerged from negative impact of the COVID-19 pandemic. We however noted that the Group's profit and loss situations were also affected by non-recurring or fluctuating items such as one-off government rewards, loss on modification of the Trade Debts and foreign exchange gains or losses. We also noted from the section headed "4. Material change" in Appendix II to the Composite Document that subsequent to 1H FY2023, the Group had incurred a withholding tax expense of approximately RMB30 million and may be recognising impairment expenses on the Trade Debts. We also observed that the Company does not have a history of declaring dividends where no pay out was made since at least 2018.

1.3 Outlook of the Group

The Group mainly operates in China's footwear industry, which we noted has been cyclical and fluctuating in the past few years. As the COVID-19 pandemic subsided which resulted in the lifting of pandemic-related restrictions, we have seen recovery in the Group's financial performance.

The Group stated in the 2023 Interim Report that it took a cautious view on the market outlook and is making timely and appropriate adjustments to its business model so as to respond to the ever-changing consumer preferences and the evolving market situation, and to maintain a sustainable development. These efforts include improving supply chain management, research and development, product design, choice of materials and inventory production process in addition to logistics management. The Group is also streamlining its organisational structure, monitoring store performance and improving quality control to better fulfil consumers' demands.

Looking ahead, despite the macro environment remains unstable and unpredictable and China's economic recovery still faces challenges and uncertainties, the Group believes its businesses are well-positioned for recovery post-COVID-19 pandemic if it can realise the potential of its aforesaid business model. In this respect, the Group has stepped up its efforts to expand its online and offline networks and to seize market share.

Overall, we concur that the Group is in the position to capitalise on post-COVID-19 pandemic recovery if it put in the efforts and resources as discussed above; although the extent, pace and timing of the positive impact to the Group's operations and financial performance will depend on, in particular, the state of China's overall economy as well as retail consumer sentiments which, as pointed out by the Company, remain unstable and unpredictable.

2. Background information of the Offeror

2.1 Information of the Offeror

The Offeror is an investment holding company incorporated in the British Virgin Islands with limited liability and its principal activities consist of investments in the sectors of new consumer products, pharmaceuticals and advanced manufacturing across both domestic and international markets. The Offeror is directly and wholly owned by Ms. Cheng Xuanxuan.

2.2 The Offeror's intention in relation to the Company

According to the "Letter from the Board" in the Composite Document, Ms. Cheng Xuanxuan, through the Offeror, has been an investor in the Company since May 2022 and has, since then, gained further understanding of the reputation of the Group's brands in the domestic industry and among consumers, as well as the management of the Group. Ms. Cheng Xuanxuan aims to seek a controlling stake in the Company for long-term investment and expand the scope of her investments. She is optimistic about the future prospects, and the existing management, of the Group, and her decision to make the Offer reflects her confidence in and commitment to the Company.

It is the intention of the Offeror that the existing business of the Group shall continue unaffected by the Offer, with no major changes planned after the close of the Offer. While the Group will remain in the footwear industry and steadily build on its strengths, the Offeror intends that the Group will further enhance its product positioning and increase its focus on the development of new retail business through multiple channels and new business models for distribution to expand the sustainable development of its offline business in China, while seeking cooperation and integration with high quality industry peers. Subject to the Group's business needs and prevailing market conditions, the Offeror intends that the Group will explore overseas markets and seek new cooperation opportunities.

As at the Latest Practicable Date, the Offeror has no intention to (i) discontinue the employment of any employees of the Group (other than discontinuances in its ordinary and usual course of business); (ii) redeploy the fixed assets of the Group (other than redeployments in its ordinary and usual course of business); (iii) introduce any major changes in the existing operations and business of the Group; or (iv) acquire any new business or dispose of any existing business of the Group.

We further noted that the Offeror intends to exercise its right under Section 102(1) (or Section 103(1)) of the Bermuda Companies Act and pursuant to Rule 2.11 of the Takeovers Code to compulsorily acquire all those Shares not acquired by the Offeror or parties acting in concert with it under the Offer, if the level of acceptances of the Offer Shares (or the Offeror and the Offeror Concert Parties' holding of the total issued share capital of the Company) reaches the prescribed threshold under Section 102(1) (or Section 103(1)) of the Bermuda Companies Act and not less than 90% of the Disinterested Shares are validly tendered for acceptance within the Compulsory Acquisition Entitlement Period.

Pursuant to Rule 15.6 of the Takeovers Code, where the Offeror has stated in the Composite Document its intention to avail itself of any powers of compulsory acquisition, the Offer may not remain open for acceptance for more than four months after the date of the Composite Document, unless the Offeror has, by that time, become entitled to exercise such powers of compulsory acquisition, in which event it must do so without delay.

2.3 Rationale of the Offer from perspectives of the Company and Disinterested Shareholders

2.3.1 From the perspective of the Company

Referring to the reasons for and benefits of the Offer for the Company in the "Letter from First Shanghai Securities" in the Composite Document, we noted that despite the Group's improved financial performance in 1H 2023, the Company believes it needs to transform its business in a challenging environment for China's footwear industry. We concur that in the face of macroeconomic pressures in China, in order for the Company to remain competitive in the face of these challenges, it must continue to be vigilant and implement structural transformation if and when needed, and these will require significant investment over a number of years, and the outcome/impact is uncertain and unpredictable.

We note that from the Company's perspective, the listing platform of the Company has not been utilised for any equity fund raising since 2020 and share trading liquidity has also been low. Therefore, coupled with the ongoing costs of compliance required of a listed company on the Stock Exchange, we concur with the Board that the costs and efforts required to maintain listing status of the Group may not be economically justified.

From the perspective of the Company, a withdrawal of listing will indeed provide it with greater flexibility to make strategic investment decisions focused on the realisation of the Company's long-term value, without being concerned about the fluctuation of its short-term share performance, regulatory restrictions and compliance obligations arising from its listing status.

2.3.2 From the perspective of the Disinterested Shareholders

We concur that from the point of view of the Disinterested Shareholders, based on their own investment time horizon, certain Disinterested Shareholders may from time to time realise their investments in the Group. However, the liquidity of the Shares has been low based on thin trading volume and any disposal of a significant number of Shares on-market, if at all possible, may also result in downward pressure on the market price of the Shares. As such, the Disinterested Shareholders may experience difficulties in realising their shareholder interests in the Company. For details, please refer to the paragraph headed "4. Historical trading liquidity of the Shares" in this letter below.

The Offer provides an assured exit alternative for the Disinterested Shareholders to realise their investments in the Shares at a premium over the prevailing market prices of the Shares, enabling the redeployment of capital into other investments. For details, please refer to the paragraph headed "3. The Offer Price" in this letter below.

3. The Offer Price

3.1 Offer Price comparison

The Offer Price of HK$0.16 per Offer Share represents:

(i) a premium of approximately 8.11%% over the closing price of HK$0.148 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

(ii) a premium of approximately 39.13% over the closing price of HK$0.115 per Share as quote on the Stock Exchange on the Last Trading Day;

(iii) a premium of approximately 37.93% over the average of the closing prices of the Shares as quote on the Stock Exchange for the five consecutive trading days up to and including the Last Trading Day of approximately HK$0.116 per Share;

(iv) a premium of approximately 40.35% over the average of the closing prices of the Shares as quote on the Stock Exchange for the ten consecutive trading days up to and including the Last Trading Day of approximately HK$0.114 per Share;

(v) a premium of approximately 22.14% over the average of the closing prices of the Shares as quote on the Stock Exchange for the 30 consecutive trading days up to and including the Last Trading Day of approximately HK$0.131 per Share;

(vi) a discount of approximately 26.98% over the average of the closing prices of the Share as quote on the Stock Exchange for the 60 consecutive trading days up to and including the Last Trading Day of approximately HK$0.126 per Share;

(vii) a discount of approximately 77.59% to the audited consolidated net assets of the Group attributable to owners of the Company per Share of approximately HK$0.714 as at 31 December 2022, based on the exchange rate of RMB1 to HK$1.08; and

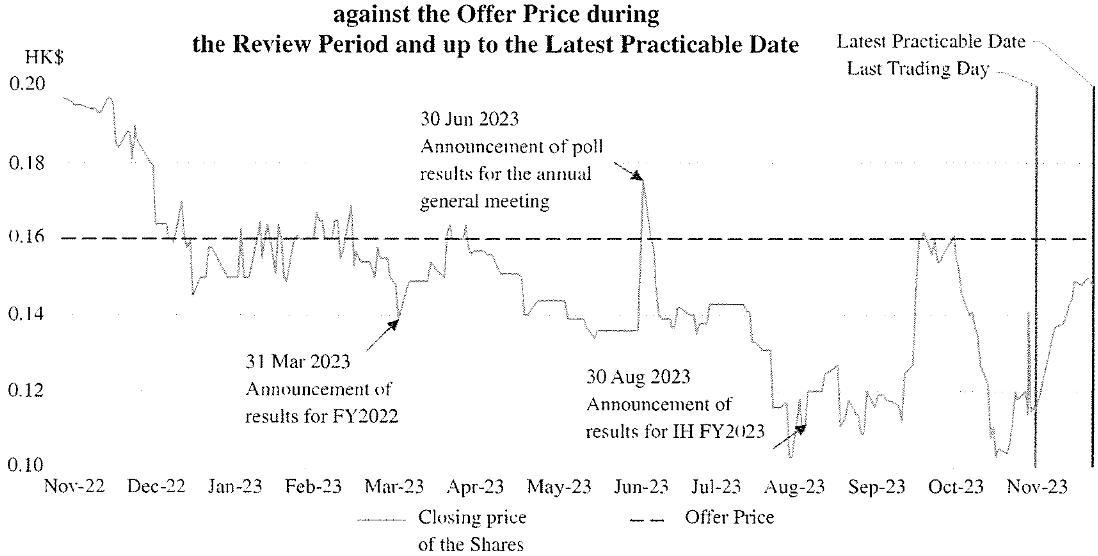
(viii) a discount of approximately 78.35% to the unaudited consolidated net assets of the Group attributable to owners of the Company per Share of approximately HK$0.739 as at 30 June 2023, based on the exchange rate of RMB1 to HK$1.08.

3.2 Analysis of historical Share price movement

In assessing the reasonableness of the Offer, we have considered the historical movement of the price of the Shares, as well as the comparison between price of the Shares and the Offer Price.

Set out below is a chart showing the movement of the closing prices of the Shares against the Offer Price from 25 November 2022, being one year prior to the Last Trading Day to and including the Last Trading Day (the "**Review Period**"), and up to the Latest Practicable Date. We are of the view that the price performance of the Shares during the Review Period can sufficiently and fairly reflect the market perception on the Company's performance, outlook and effects of certain specific events, which may be relevant to our analysis.

Closing prices of the Shares against the Offer Price during the Review Period and up to the Latest Practicable Date



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

Over the Review Period, the highest and lowest closing price of the Shares were HK$0.197 per Share on 25 November 2022, 12 and 13 December 2022 and HK$0.103 per Share on 24 and 25 August 2023 and 9 November 2023 respectively. The average closing price of the Shares over the Review Period was approximately HK$0.147 per Share.

From 25 November 2022 to 25 August 2023

The closing prices of the Shares trended downward during the period despite an abrupt spike around 30 June 2023 on low trading volume.

From 25 August 2023 to the Last Trading Day

The closing prices of the Shares experienced significant fluctuation during this period, following the announcement of the interim results for 1H FY2023. The closing prices of the Shares increased to HK$0.16 per Share on 11 October 2023 and maintained at a similar level until a decline to around HK$0.10 to HK$0.12 in early November 2023 and up to the Last Trading Day. We have discussed and understood from the Management that they are not aware of any events or factors attributable to the significant fluctuation during such period.

Subsequent to the Last Trading Day to the Latest Practicable Date

The closing prices of the Shares increased to HK$0.141 per Share on the date when the trading of the Share resumed subsequent to the Last Trading Day, and remained at the similar level up to the Latest Practicable Date.

Section summary

During the majority of the Review Period, the closing prices of the Share had consistently traded at a discount to the Offer Price with an average of approximately HK$0.147 per Share, representing a discount of approximately 8.1% to the Offer Price. Subsequent to the Last Trading Day and up to the Latest Practicable Date, the closing prices of the Shares increased significantly but remained lower than the Offer Price. Therefore, from the perspective of the historical market trading price performance of the Shares, we are of the view that the Offer Price is fair and reasonable.

4. **Historical trading liquidity of the Shares**

We have conducted a review on the trading liquidity of the Shares, and set out below is the average daily trading volume of the Shares on a monthly basis and the respective percentage of the average daily trading volume of the Shares during the Review Period and up to the Latest Practicable Date as compared to the total number of issued Shares and the Disinterested Shares as at the Latest Practicable Date (i.e. 1,436,287,097 Shares).

Month	**Average daily trading volume** *(Shares)*	**Approximate % of average daily trading volume to total issued Shares as at the Latest Practicable Date** *(Note)* *(%)*	**Approximate % of average daily trading volume to total number of Disinterested Shares as at the Latest Practicable Date** *(%)*
Review Period			
2022			
November (starting from 25 November)	7,500	0.0004	0.0005
December	90,100	0.0043	0.0063
2023			
January	210,333	0.0101	0.0146
February	68,950	0.0033	0.0048
March	49,913	0.0024	0.0035
April	137,882	0.0066	0.0096
May	196,143	0.0094	0.0137
June	74,476	0.0036	0.0052
July	129,400	0.0062	0.0090
August	31,130	0.0015	0.0022
September	139,211	0.0067	0.0097
October	888,200	0.0428	0.0618
November (up to and including the Last Trading Day)	3,030,222	0.1459	0.2110
Average	387,004	0.0186	0.0269
Subsequent to the Review Period and up to the Last Practicable Date			
2023			
November (after the Last Trading Day and on the date of resumption of trading of the Shares, i.e. 30 November 2023)	29,847,000	1.4370	2.0781
December (up to the Latest Practicable Date)	3,785,636	0.1823	0.2636

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

Notes: Based on the total number of issued Shares as at each month or period end.

As shown in the table above, the average daily trading liquidity of the Shares was low from the start of the Review Period, ranging from approximately 0.0004% to 0.1459% of the Group's total issued share capital, and approximately 0.0005% to 0.2110% of the Disinterested Shares. Such liquidity would suggest that any sale of large number of Shares on the market over a short period of time may be difficult without exerting downward pressure on the price of the Shares.

Subsequent to the Last Trading Day and up to the Latest Practicable Date, we noted that (i) the trading volume the date on which the trading of the Shares was resumed (i.e. 30 November 2023) represented approximately 1.4370% of the total issued share capital and approximately 2.0781% of the Disinterested Shares; and (ii) the average daily trading liquidity of the Shares increased to approximately 0.1823% of the Group's total issued share capital and approximately 0.2636% of the Disinterested Shares in December 2023 (up to the Latest Practicable Date. We believe such increase in liquidity is likely related to the announcement of the Offer, and such high level of trading liquidity may or may not be able to sustain during and/or after the Offer Period.

In light of the thin trading liquidity of the Shares during the Review Period, which were not affected by the Offer, the Offer provides an assured opportunity for the Disinterested Shareholders to realise their investment in the Company for cash at the fixed Offer Price regardless of the number of Shares they hold.

5. Market comparables

For market comparable analysis, we have attempted to identify listed companies on the Stock Exchange engaging in similar business of the Group (the "**Comparable Companies**").

In the selection of the Comparable Companies, our selection criteria focused on the companies that (i) are listed on the Main Board of the Stock Exchange; (ii) categorised under "footwear" on the Stock Exchange's website, which is the same as the Company's category; (iii) have business in China; and (iv) have their own retail brands.

For our market comparable analysis, given the nature of the Group's business is not asset heavy, we have used price-to-earnings ratio ("**P/E Ratio**", a commonly adopted parameter in assessing a company's value) to assess whether or not the Subscription Price is fair and reasonable against the Comparables Companies. Price-to-book ratio ("**P/B Ratio**") is less relevant to our analysis as (i) it is more commonly adopted for valuing asset-based companies such as those operating in the banking and real estate industries; and (ii) the Company's assets mainly include inventories, receivables and cash for working capital and investment purposes. As we noted that the Offer Price represents a discount of 77.59% and 78.35% to the consolidated net assets of the Group attributable to the owners of the Company as at 31 December 2022 and 30 June 2023 respectively, for completeness, we have included the P/B Ratio analysis for the Disinterested Shareholders' reference.

The Comparable Companies below have been selected based on the above criteria and have been identified through our research based on information on the website of the Stock Exchange. We are of the view that it is an exhaustive list.

Company	Stock code	Business Description	Net profits of the latest financial year *(HK$ million)*	Market capitalisation as at the Last Trading Day *(Note 1)* *(HK$ million)*	P/E Ratio *(Note 2)* *(Times)*	P/B Ratio *(Note 4)* *(Times)*
Daphne International Holdings Ltd.	210	The principal activity of the company is in distribution and licensing of footwear and accessories in China.	43.6	410	9.4	0.6
Viva Goods Co. Ltd.	933	Mainly engaged in the multi-brand footwear business. The company operates its business through two segments. The multi-brand Footwear segment is engaged in the design and development, brand promotion and sales of sports and leisure consumer products. The Sports Experience segment is engaged in the in the management and operation of sporting facilities and coordination of sports events and sports-related marketing services.	873.0	9,333	10.7	0.9
361 Degrees International Ltd.	1361	Principally engaged in the manufacturing and trading of sporting goods, including footwear, apparel and accessories. The company is also engaged in the operation of gas stations through its subsidiaries.	882.1	7,506	8.5	0.7
Xtep International Holdings Ltd.	1368	China-based company principally engaged in the design, development, manufacturing, sales, marketing and brand management of sports products, including footwear, apparel and accessories.	985.3	12,917	13.1	1.4
Stella International Holdings Ltd.	1836	Principally engaged in the development, manufacture and sales of footwear products.	901.4	7,575	8.4	1.0
Le Saunda Holdings Ltd.	738	The design, development, manufacture and retailing of ladies' and men's footwear, handbags and fashion accessories products.	Loss-making	292.9	N/A	0.4
Golden Solar New Energy Technology Holdings Ltd.	1121	The manufacture and sale of slippers, sandals, casual footwear, Graphene-based EVA Foam Material and Graphene-based Slippers, Sterilizing Chips and graphene air sterilizers, and Cast-mono wafers and Cast-mono HJT solar cells and modules in China.	Loss-making	10,477.5	N/A	15.4 *(Note 5)*
				Maximum	13.1	1.4
				Minimum	8.4	0.4
				Average	10.0	0.8
				Median	9.4	0.8

Company	Stock code	Business Description	Net profits of the latest financial year *(HK$ million)*	Implied market capitalisation as at the Last Trading Day *(Note 3)* *(HK$ million)*	Implied P/E Ratio *(Note 3)* *(Times)*	Implied P/B Ratio *(Note 4)* *(Times)*
The Company	1028	The Company and its subsidiaries are a leading international integrated retailer and wholesaler of mid-to-premium women's formal and casual footwear in China.	15.9	332	20.8	0.2

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

Notes:

1. Calculated based on the closing share price as at the Last Trading Day and the number of shares in issue on the latest available monthly return on movements in securities of the respective company.

2. P/E Ratio was calculated based on the respective market capitalisation divided by their respective latest profit after tax reported in the respective companies' latest published annual report or annual results announcement.

3. The implied market capitalisation of the Group was calculated based on the Offer Price and the number of issued Shares as at the Last Trading Day. The implied P/E Ratio of the Group was calculated based on the implied market capitalisation divided by the Group's profit after tax published in the 2022 Annual Report. The implied P/B Ratio of the Group was calculated based on the implied market capitalisation divided by the Group's net assets published in the 2023 Interim Report.

4. The P/B Ratio was calculated based on the respective market capitalisation divided by their respective latest available net assets reported in the respective companies' latest published annual/interim report or annual/interim results announcement.

5. Golden Solar New Energy Technology Holding Ltd. was excluded in our P/B Ratio analysis due to the fact that (i) in addition to footwear business, it has other businesses dealing with graphene-based products and photovoltaic products; and (ii) its segment assets relating to footwear business only accounted for approximately 31.3% of its total segment assets as at 31 December 2022.

5.1. P/E Ratio

The P/E Ratios of the Comparable Companies ranged from approximately 8.4 time to 13.1 times. The implied P/E Ratio of the Group based on the Offer Price is approximately 20.8 times, which is above the range of the Comparable Companies. We noted there was a loss on modification of long-term trade debts from a former subsidiary of RMB9.9 million in FY2022. For illustration and adjusting the aforesaid item by adding the amount to the Group's net profit, the resultant implied P/E Ratio of the Group based on the Offer Price would have been approximately 12.5 times, which remains at the top end of the range of the Comparable Companies and above the average. Therefore, we are of the view that the Offer Price is fair and reasonable from the perspective of market comparable analysis using P/E Ratio.

5.2 P/B Ratio

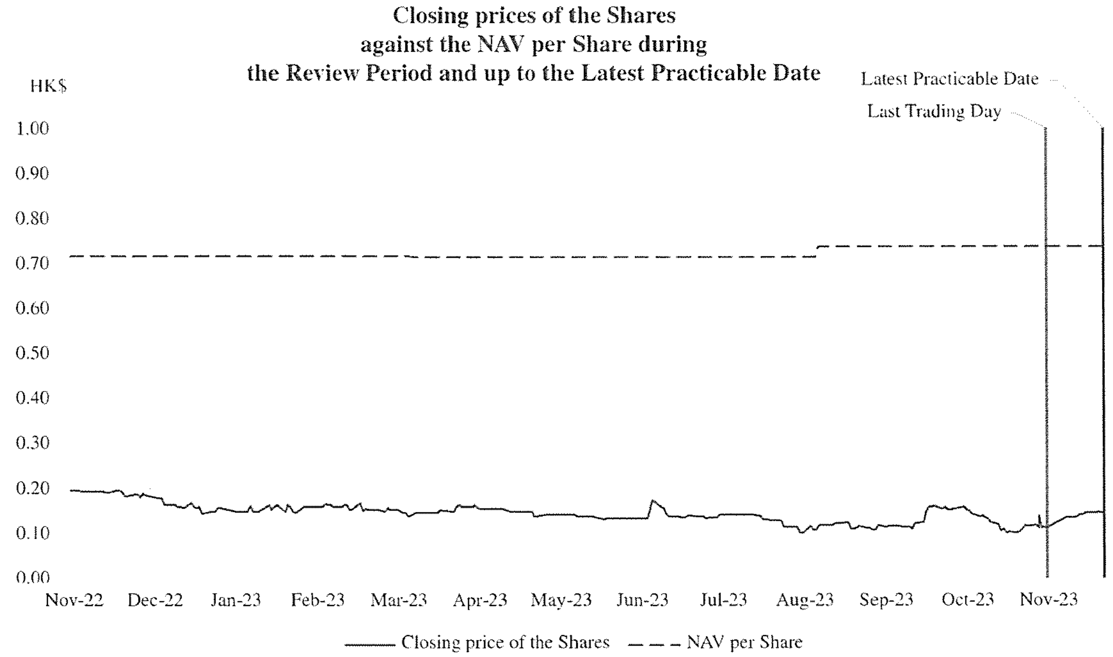
As at 30 June 2023, the Group's unaudited net assets amounted to approximately RMB1,421.0 million or HK$0.739 per Share, based on 2,077,000,000 Shares in issue as at both the Last Trading Day and the Latest Practicable Date. The Offer Price is therefore at a discount of approximately 78.35% to the aforesaid unaudited net assets per Share, or an implied P/B Ratio based on the Offer Price of approximately 0.2 times. This is below the range of P/B Ratios of the Comparable Companies (i) between 0.4 times and 15.4 times; or (ii) between 0.4 times and 1.4 times (when Golden Solar New Energy Technology Holding Ltd. is excluded).

We have henceforth also reviewed the underlying composition of the Group's balance sheet as at 30 June 2023. Total assets amounted to approximately RMB1,767.7 million, of which non-current assets amounted to approximately RMB358.5 million and consisted mainly of property, plant and equipment (approximately RMB137.9 million) and right-of-use assets (approximately RMB74.0 million). According to the 2022 Annual Report, the main components of property, plant and equipment are construction in progress and leasehold improvements. Based on our research and discussion with the Management, we understand that the Group's construction in progress in relation to its factories and leasehold improvements are designed for specific purposes relating to the Group's business. Consequently, unlike assets such as cash, real property and to a certain extent, trade receivables, specific factors such as liquidity discounts as a result of lack of sale and purchase transactions which could hamper value, should be considered.

Meanwhile, current assets, which amounted to approximately RMB1,409.1 million, included (i) bank balances and cash of approximately RMB582.2 million; (ii) inventories of approximately RMB384.5 million; and (iii) receivables and prepayments of approximately RMB442.5 million. Total liabilities amounted to approximately RMB346.7 million, and included mainly trade and bills payables and other payables. In the context of privatisation, we have considered the realisable value of the Group's assets and its obligations to meet its liabilities. In this regard, the priority of deployment of the Group's bank balances and cash will be to settle its trade and bills payables and other payables, and the remaining cash balance would be approximately RMB315.4 million. The potential realisation of the value of its inventories will be dependent on ongoing business climate so as to translate them into sales revenue, while recoverability of its trade receivables will be dependent on overall economic and business environment.

We also noted from the section headed "4. Material change" in Appendix II to the Composite Document that subsequent to 1H FY2023, the Group had incurred a withholding tax expense of approximately RMB30 million and may be recognising impairment expenses on the Trade Debts, which amounted to approximately RMB206.8 million as at 30 June 2023.

Overall, we are of the view that the lower implied P/B Ratio compared to Comparable Companies renders the Offer Price not favourable when viewed solely from this perspective. We have weighed this in conjunction with considerations such as (i) factors which may affect the realisable value of the Group's net assets as discussed above; and (ii) the persistent discount which the Shares had been trading at relative to its net assets value ("**NAV**") per Share during the Review Period (as shown in the graph below) and the Offer represents an opportunity to narrow this persistent discount. On balance, we are of the view that the Offer Price is justifiable.



Notes:

1. Between 25 November 2022 and 31 March 2023, the NAV per Share was calculated and based on the unaudited consolidated net asset value of the Group as at 30 June 2022 divided by the number of Shares in issue on 31 March 2023.

2. Following the announcement of the Group's results for the year ended 31 December 2022 on 31 March 2023 (after trading hours), for the period between 1 April 2023 and 30 August 2023, the NAV per Share was calculated by reference to the audited consolidated net asset value of the Group as at 31 December 2022 divided by the number of Shares in issue on 30 August 2023.

3. Following the announcement of the Group's results for the six months ended 30 June 2023 on 30 August 2023 (after trading hours), for the period between 31 August 2023 and the Latest Practicable Date, the NAV per Share was calculated by reference to the unaudited consolidated net asset value of the Group as at 30 June 2023 divided by the number of Shares in issue on the Last Trading Day.

6. Privatisation precedents

We are of the view that past privatisation transactions of companies listed on the Stock Exchange may not be a good reference for assessing the fairness and reasonableness of the Offer Price considering these companies are from different industries, which therefore have different market fundamentals and prospects. Accordingly, we consider the analysis in the sections above to be more relevant for the Disinterested Shareholders.

RECOMMENDATIONS

In summary, in relation to the Offer, we have considered the below factors and reasons in reaching our conclusion and recommendations:

(i) financial performance of the Group had been fluctuating and it had not declared dividends in the past few years;

(ii) while it is in the position to capitalise on post-COVID-19 pandemic recovery, the extent, pace and timing of the positive impact to the Group's operations and financial performance will depend on, in particular, the state of China's overall economy as well as retail consumer sentiments which remain unstable and unpredictable;

(iii) the Offer Price represented a premium of approximately 8.1% to the average closing prices per Share during the Review Period is approximately HK$0.147 per Share. From the perspective of the historical market trading price performance of the Shares, we are of the view that the Offer Price is fair and reasonable;

(iv) in light of the low trading liquidity of the Shares during the Review Period, the Offer provides an assured opportunity for the Disinterested Shareholders to realise their investment in the Company for cash at the fixed Offer Price regardless of the number of Shares they hold;

(v) the implied P/E Ratio is above the range of the Comparable Companies, rendering the Offer Price fair and reasonable; and

(vi) while the implied P/B Ratio is below the range of the Comparable Companies, when considered in conjunction with our analysis under the paragraph headed "5.2 P/B Ratio" above, we are of the view that the Offer Price is, on balance, justifiable.

In light of the above, we consider that the terms of the Offer are fair and reasonable. Accordingly, we recommend the Independent Board Committee to advise the Disinterested Shareholders to accept the Offer.

As different Disinterested Shareholders would have different investment criteria, objectives or risk appetite and profiles, we recommend any Disinterested Shareholders who may require advice in relation to any aspect of the Composite Document, or as to the action to be taken, to consult a licensed securities dealer, bank manager, solicitor, professional accountant, tax adviser or other professional adviser.

Yours faithfully,
For and on behalf of
Altus Capital Limited

Jeanny Leung	**Chang Sean Pey**
Responsible Officer	*Responsible Officer*

*Ms. Jeanny Leung ("**Ms. Leung**") is a Responsible Officer of Altus Capital Limited licensed to carry on Type 6 (advising on corporate finance) regulated activity under the SFO and permitted to undertake work as a sponsor. She is also a Responsible Officer of Altus Investments Limited licensed to carry on Type 1 (dealing in securities) regulated activity under the SFO. Ms. Leung has over 30 years of experience in corporate finance advisory and commercial field in Greater China, in particular, she has participated in sponsorship work for initial public offerings and acted as financial adviser or independent financial adviser in various corporate finance transactions.*

*Mr. Chang Sean Pey ("**Mr. Chang**") is a Responsible Officer of Altus Capital Limited licensed to carry on Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO and permitted to undertake work as a sponsor. He is also a Responsible Officer of Altus Investments Limited licensed to carry on Type 1 (dealing in securities) regulated activity under the SFO. Mr. Chang has over 25 years of experience in banking, corporate finance advisory and investment management. In particular, he has participated in sponsorship work for initial public offerings and acted as financial adviser or independent financial adviser in various corporate finance advisory transactions.*