信溢投資策劃有限公司
CHALLENGE CAPITAL MANAGEMENT LIMITED

中國通海企業融資有限公司
CHINA TONGHAI CAPITAL LIMITED

22 March 2021

To the Independent Board Committee

Dear Sirs,

(1) PROPOSAL FOR THE PRIVATISATION OF I.T LIMITED BY THE OFFEROR BY WAY OF A SCHEME OF ARRANGEMENT UNDER SECTION 99 OF THE COMPANIES ACT AND (2) PROPOSED WITHDRAWAL OF LISTING OF I.T LIMITED

INTRODUCTION

We refer to our appointment as the joint independent financial advisers to the Independent Board Committee in respect of the Proposal, details of which are set out in the Scheme Document dated 22 March 2021 jointly issued by the Company and the Offeror in relation to the Proposal, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Scheme Document unless the context otherwise requires.

The Independent Board Committee consists of all independent non-executive Directors, namely Dr. Wong Tin Yau, Kelvin, JP; Mr. Francis Goutenmacher; and Mr. Tsang Hin Fun, Anthony. The Independent Board Committee has been established to make a recommendation to the Disinterested Shareholders as to whether: (a) the terms of the Proposal including the Scheme and the Joint Offeror Cooperation Arrangement, are fair and reasonable so far as the Disinterested Shareholders are concerned; and (b) to vote in favour of the Scheme at the Scheme Meeting and the Joint Offeror Cooperation Arrangement at the SGM. The Independent Board Committee has approved our appointment as the Joint Independent Financial Advisers in respect of the Proposal. As the Joint Independent Financial Advisers, our role is to give an independent opinion to the Independent Board Committee in such regard.

Each of Challenge Capital and China Tonghai is not associated with the Company, the Offeror, their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them. Apart from normal professional fees paid or payable to us in connection with this engagement, no other arrangement exists whereby we will receive any fees or benefits from the Company, the Offeror, their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them. Accordingly, we are considered eligible to give an independent opinion to the Independent Board Committee.

BASIS OF OUR OPINION

In formulating our opinion and advice, we have relied on (a) the information, facts and representations contained or referred to in the Scheme Document; (b) the information, facts and representation supplied or provided by the Company, the Directors and the management of the Group; (c) the opinions expressed by and the representations of the Directors and the management of the Group; and (d) our review of relevant public information. We have assumed that all the information and facts provided and representations and beliefs, intentions and opinions expressed to us or contained or referred to in the Scheme Document are true, accurate and complete in all respects as at the Latest Practicable Date and may be relied upon. We have also assumed that all statements contained and information, facts and representations made to us or referred to in the Scheme Document were true at the time they were made and continue to be true up to the time of the Scheme Meeting and SGM and all statements of belief, intentions and opinions of the Directors and the management of the Group and those as set out or referred to in the Scheme Document were reasonably made after due and careful enquiry. We have no reason to doubt the truth, accuracy and completeness of such information, representations, beliefs, opinions and intentions provided to us by the Directors and the management of the Group. We have also sought and received confirmation from the Company that no material facts have been withheld or omitted from the information provided to us and referred to in the Scheme Document and that all information or facts provided or representations or beliefs, opinions or intentions provided to us by any of the Directors and the management of the Company are true, accurate, complete and not misleading in all respects which have been made after due and careful enquiry at the time they were made and continued to be so until the Scheme Meeting and SGM.

The Scheme Shareholders will be informed by the Company and us as soon as practicable if there is any material change to the information disclosed in the Scheme Document during the offer period, in which case we will consider whether it is necessary to revise our opinion and inform the Independent Board Committee and the Disinterested Shareholders accordingly.

We consider that we have reviewed sufficient information currently available to reach an informed view so as to provide a reasonable basis for our opinion regarding the terms of the Proposal. We have not, however, carried out any independent verification of the information provided, representations made or opinions expressed by the Directors and the management of the Group, nor have we conducted any form of in-depth investigation into the business, affairs, operations, financial position or future prospects of the Company or any of its respective subsidiaries and associates.

We have not considered the tax and regulatory implications on the Disinterested Shareholders as a result of the Proposal, if implemented, since these are particular to their individual circumstances. In particular, the Disinterested Shareholders who are overseas residents or subject to overseas taxation or Hong Kong taxation on securities dealings should consider their own tax position and, if in any doubt, should consult their own professional advisers.

PRINCIPAL TERMS AND CONDITIONS OF THE PROPOSAL

On 6 December 2020, the Offeror and the Company jointly announced that they had entered into the Implementation Agreement on 5 December 2020, pursuant to which the parties had agreed to use all reasonable endeavours to implement the Proposal to privatise the Company by way of a scheme of arrangement under section 99 of the Companies Act. Subject to the satisfaction of the Pre-Condition (being the SAMR issuing a notice approving the Proposal and the Scheme, or the statutory clearance period specified by the SAMR pursuant to the PRC Anti-Monopoly Law, including any extension of such period, having elapsed and no objection having been raised or qualifications or requirements imposed by the SAMR in relation to the Proposal or the Scheme), the Proposal will be made. On 19 January 2021, the Pre-Condition was satisfied.

Subject to the fulfilment or waiver (as applicable) of the Conditions, the proposed privatisation of the Company will be implemented by way of the Scheme.

(a) Terms of the Proposal

If the Proposal is approved and implemented:

(i) the Founder Scheme Shares held by the Founder Group will be cancelled in consideration for the Founder Cancellation Consideration pursuant to the Joint Offeror Cooperation Arrangement;

(ii) all Non-Founder Scheme Shares will be cancelled in consideration for the Cancellation Price of HK$3 per Non-Founder Scheme Share, which shall be paid in cash;

(iii) new Shares will be issued to the Offeror, credited as fully paid, such that the Company will become wholly-owned directly by the Offeror; and

(iv) the listing of the Shares on the Stock Exchange will be withdrawn with effect immediately following the Effective Date.

Based on the Cancellation Price and the number of Shares in issue as at the Latest Practicable Date, the Proposal valued 100% equity interest in the Company at approximately HK$3,587,391,921.

The Disinterested Shareholders should note that as stated in the "Letter from the Board" in the Scheme Document, the Cancellation Price will not be increased and the Offeror does not reserve the right to do so. If the Scheme is not approved or the Proposal otherwise lapses, neither the Offeror nor any person who acted in concert with it in the course of the Proposal (nor any person who is subsequently acting in concert with any of them) may, within 12 months from the date on which the Scheme is not approved or the Proposal otherwise lapses, announce an offer or possible offer for the Company, except with the consent of the Executive.

(b) Conditions of the Proposal

The Proposal is, and the Scheme will become effective and binding on the Company and all the Shareholders, subject to the fulfilment or waiver (as applicable) of, among other things, the following Conditions.

(i) the approval of the Scheme (by way of poll) by a majority in number of the Scheme Shareholders present and voting at the Scheme Meeting, representing not less than 75% in value of those Scheme Shares that are voted either in person or by proxy by the Scheme Shareholders at the Scheme Meeting (the Founder Group having provided an undertaking to the Court to agree to and be bound by the Scheme and to receive the Founder Cancellation Consideration in consideration for cancellation of its Founder Scheme Shares under the Scheme);

(ii) the approval of the Scheme (by way of poll) by at least 75% of the votes attaching to the Scheme Shares held by the Disinterested Shareholders (being all Scheme Shareholders, other than those acting in concert with the Offeror) that are voted either in person or by proxy at the Scheme Meeting, provided that the number of votes cast against the resolution to approve the Scheme is not more than 10% of the votes attaching to all of the Scheme Shares held by the Disinterested Shareholders;

(iii) the passing by the Shareholders at the SGM of: (a) a special resolution to approve any reduction of the issued share capital of the Company by the cancellation of the Scheme Shares; and (b) an ordinary resolution to apply the reserve created by the cancellation of the

Scheme Shares to simultaneously restore the issued share capital of the Company by the allotment and issue to the Offeror of such number of new Shares (credited as fully paid) as is equal to the number of the Scheme Shares cancelled;

(iv) the sanction of the Scheme (with or without modification) by the Court and the delivery to the Registrar of Companies in Bermuda of a copy of the order of the Court for registration;

(v) compliance with the procedural requirements and conditions, if any, under section 46(2) of the Companies Act in relation to any reduction of the issued share capital of the Company;

(vi) in relation to the Joint Offeror Cooperation Arrangement: (i) the receipt of an opinion from the Independent Financial Adviser to the Independent Board Committee confirming that the Joint Offeror Cooperation Arrangement is fair and reasonable as far as the Disinterested Shareholders are concerned; (ii) the passing of an ordinary resolution by the Disinterested Shareholders at the SGM to approve the Joint Offeror Cooperation Arrangement; and (iii) the grant of consent under Note 3 to Rule 25 of the Takeovers Code from the Executive to the Joint Offeror Cooperation Arrangement;

(vii) all Approvals which are: (i) required in connection with the Proposal by Applicable Laws or any licences, permits or contractual obligations of the Company; and (ii) material in the context of the Group (taken as a whole), having been obtained (or, as the case may be, completed) and remaining in full force and effect without modification up to and as at the Effective Date;

(viii) no Authority in any jurisdiction having taken or instituted any action, proceeding, suit, investigation or enquiry (or enacted or proposed, and there not continuing to be outstanding, any statute, regulation, demand or order), in each case, which would make the Proposal void, unenforceable, illegal or impracticable (or which would impose any material and adverse conditions or obligations with respect to the Proposal);

(ix) all Applicable Laws having been complied with and no legal or regulatory requirement having been imposed by any Authority which is not expressly provided for, or is in addition to the requirements expressly provided for, in the Applicable Laws in connection with the Proposal which are material in the context of the Group (taken as a whole), in each case up to and as at the Effective Date;

(x) since the date of the Joint Announcement, there having been no material adverse change to the business, financial or trading position of the Group, each taken as a whole; and

(xi) save in connection with the implementation of the Proposal, the listing of the Company on the Stock Exchange not having been withdrawn, and no indication having been received from the Executive and/or the Stock Exchange to the effect that the listing of the Shares on the Stock Exchange is or is likely to be withdrawn.

The Conditions in paragraphs (i) to (ix) (inclusive) above are not waivable. The Offeror reserves the right to waive all or any of the Conditions in paragraphs (x) to (xi) (inclusive) above in whole or in part. The Company does not have the right to waive any of the Conditions. All of the Conditions must be fulfilled or waived, as applicable, on or before the Long Stop Date, failing which the Proposal and the Scheme will lapse. For details of the other Conditions, please refer to the section headed "5. Conditions of the Proposal" in "Part VII Explanatory Statement" of the Scheme Document.

As at the Latest Practicable Date, none of the Conditions had been satisfied or waived.

If the Conditions are satisfied or validly waived (as applicable), the Scheme will be binding on all of the Shareholders, irrespective of whether or not they attended or voted at the Scheme Meeting or the SGM.

(c) Founder irrevocable undertakings

On 5 December 2020, each member of the Founder Group gave an irrevocable undertaking in favour of the Offeror and CVC Holdco (being the other Joint Offeror):

(i) to agree to and assist in implementing the cancellation of the Founder Scheme Shares held by them in consideration for the Founder Cancellation Consideration;

(ii) to provide undertakings to the Court to agree to and be bound by the Scheme and to receive the Founder Cancellation Consideration in consideration for cancellation of their Founder Scheme Shares under the Scheme;

(iii) to the extent permitted by Applicable Laws (including the Takeovers Code), to vote any Shares held by them in favour of any resolutions proposed at the SGM to implement the Scheme or which are necessary for the Scheme to become effective; and

(iv) not to: (a) dispose of any interest in any Shares held by them; (b) accept any other offer to acquire such Shares; or (c) vote in favour of any resolution which is proposed in competition with the Scheme, until the Scheme becomes effective, lapses or is withdrawn.

The Founder Irrevocable Undertakings will be terminated if the Scheme is not approved or the Proposal otherwise lapses or is withdrawn.

(d) Arrangements material to the Proposal

(i) Implementation Agreement

On 5 December 2020, the Offeror and the Company entered into the Implementation Agreement, pursuant to which the Company has undertaken to the Offeror to: (a) use all reasonable endeavours to implement the Scheme; and (b) procure that, prior to the earlier of the Effective Date and termination of the Implementation Agreement, unless otherwise approved by the Shareholders in a general meeting in accordance with Rule 4 of the Takeovers Code, the Group shall not take certain actions, details of which are set out in the section headed "7. Arrangements Material to the Proposal" in "Part VII Explanatory Statement" in the Scheme Document.

In addition, the Company has further undertaken, among other things, that it will not, and will procure that no member of the Group shall, directly or indirectly:

(a) solicit, encourage, or otherwise seek to procure the submission of proposals, indications of interests or offers of any kind which are reasonably likely to lead to an alternative offer from any person other than the Offeror; and

(b) enter into, or participate in, any discussions or negotiations (other than responding to unsolicited enquiries) with any such person in relation to an alternative offer or provide any due diligence information on the Company and the Group to any third party in connection therewith, save to the extent that, based on the written advice of external legal counsel: (i) the Board reasonably considers that they are likely to be in breach of their directors' duties or statutory duties not to do so; or (ii) they are required to do so under Rule 6 of the Takeovers Code or other Applicable Laws.

Nothing in the Implementation Agreement is intended to prevent or deprive: (a) the Shareholders from having the opportunity to consider; or (b) the Company from considering, in each case, any unsolicited alternative offers, proposals or transactions in respect of, or for, the issued ordinary share capital or assets or undertakings (whether the whole or a substantial part) of the Company or the Group from any person other than the Offeror.

The Implementation Agreement will be terminated if the Scheme is not approved or the Proposal otherwise lapses or is withdrawn.

(ii) Joint Offeror Cooperation Arrangement

As part of the Proposal, the relevant members of the Founder Group, CVC Holdco and/or EquityCo entered into the following Joint Offeror Cooperation Arrangement:

(a) Consortium Agreement;

(b) Shareholders' Agreement; and

(c) Transactions in connection with the Restructuring (being the restructuring of the Group and the Offeror Group (as applicable) pursuant to: (a) the Framework Agreement (which terminated and superseded the Restructuring Term Sheet); (b) the implementing agreements relating to asset or share transfers, transitional or long-term services and alternative arrangements in relation to the Restructuring; and (c) the Refinancing Documents.

The Joint Offeror Cooperation Arrangement governs the cooperation between the Founder Group and CVC Holdco. Further details of the Joint Offeror Cooperation Arrangement are set out in the section headed "8. Joint Offeror Cooperation Arrangement" below.

(e) Expected timetable of the Proposal

The indicative timetable for the Proposal is set out in "Expected Timetable" in the Scheme Document. Further announcement will be made by the Offeror and the Company if there is any change to the timetable.

In compliance with Rule 20.1(a) of the Takeovers Code, upon the Scheme becoming effective, the consideration for cancellation of the Non-Founder Scheme Shares will be paid to the Non-Founder Scheme Shareholders as soon as possible, but in any event within seven business days (as defined in the Takeovers Code) following the Effective Date.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation with regard to the Proposal, we have taken into account the following principal factors and reasons:

1. Background information of the Group

The Company is a company incorporated in Bermuda with limited liability, the shares of which have been listed on the Stock Exchange since March 2005. The Group is principally engaged in the design, sourcing and sales of fashion wear and accessories. The Group positions itself as a fashion trendsetter. The Company has established joint ventures with French Connection, Zadig & Voltaire, Camper, Galeries Lafayette, Kenzo and Simone Rocha.

The Group offers a wide range of fashion apparel and accessories with different fashion concepts at various retail price points that target at different customer groups. It carries apparel and accessories from over 300 established and up-and-coming international designer's brands and over 10 in-house brands and licensed brands. In-house brands include A Bathing Ape, AAPE, izzue, b+ab, 5cm, fingercroxx, :CHOCOOLATE, MUSIUM DIV., and Venilla suite. Licensed brands include Off-White, Acne Studios, Comme des Garcons, Fred Perry, as know as de Rue, MLB and X-Large. The in-house brand segment provided the Group with the largest revenue contribution, amounting to an average of approximately 60.2% of the retail sales for the three years ended 29 February 2020 whereas the international brand segment and the licensed brand segment contributed about an average of approximately 39.1% and approximately 0.7% of retail sales for the three years ended 29 February 2020, respectively.

PRC and Hong Kong are the major markets of the Group. PRC is the largest market of the Group, which accounted for approximately 46.6% and 48.6% of the Group's turnover for the years ended 28 February 2019 ("**FY18/19**") and 29 February 2020 ("**FY19/20**"), respectively. Hong Kong and Macau accounted for approximately 38.8% and 33.9% of the Group's turnover for FY18/19 and FY19/20, respectively. Japan and the US accounted for approximately 13.0% and 15.7% of the Group's turnover for FY18/19 and FY19/20, respectively. For the six months ended 31 August 2020 ("**1H FY20/21**"), PRC, Hong Kong and Macau, and Japan and the US accounted for approximately 58.5%, 26.7% and 13.0% of the Group's turnover, respectively.

As at 31 August 2020, the Group had 797 self-managed stores and 22 franchised stores. Set out below is the breakdown of the number of stores and sales footage of gross area (in square feet) by I.T store (multi brand store) and other store and by geographic region:

	Self-managed						Franchised					
	31 August 2020	% *(Note)*	**29 February 2020**	% *(Note)*	**28 February 2019**	% *(Note)*	**31 August 2020**	% *(Note)*	**29 February 2020**	% *(Note)*	**28 February 2019**	% *(Note)*
Greater China:												
Hong Kong												
I.T												
– Number of stores	172	21.6	189	22.1	215	24.9	–	–	–	–	–	–
– Sales footage	451,490	20.2	522,892	21.6	534,825	21.9	–	–	–	–	–	–
Others												
– Number of stores	5	0.6	5	0.6	6	0.7	–	–	–	–	–	–
– Sales footage	5,038	0.2	5,038	0.2	6,280	0.3	–	–	–	–	–	–
Hong Kong sub-total												
– Number of stores	**177**	**22.2**	**194**	**22.7**	**221**	**25.6**	**–**	**–**	**–**	**–**	**–**	**–**
– Sales footage	**456,528**	**20.4**	**527,930**	**21.8**	**541,105**	**22.1**	**–**	**–**	**–**	**–**	**–**	**–**
PRC												
I.T												
– Number of stores	510	64.0	537	62.8	532	61.6	5	22.7	9	29.0	23	46.9
– Sales footage	1,595,008	71.3	1,671,913	69.0	1,697,612	69.5	6,273	26.5	11,072	37.0	27,578	47.1
Others												
– Number of stores	46	5.8	59	6.9	50	5.8	–	–	–	–	–	–
– Sales footage	54,738	2.4	89,027	3.7	76,804	3.1	–	–	–	–	–	–
PRC sub-total												
– Number of stores	**556**	**69.8**	**596**	**69.7**	**582**	**67.4**	**5**	**22.7**	**9**	**29.0**	**23**	**46.9**
– Sales footage	**1,649,746**	**73.7**	**1,760,940**	**72.7**	**1,774,416**	**72.6**	**6,273**	**26.5**	**11,072**	**37.0**	**27,578**	**47.1**

	Self-managed						Franchised					
	31 August 2020	% *(Note)*	**29 February 2020**	% *(Note)*	**28 February 2019**	% *(Note)*	**31 August 2020**	% *(Note)*	**29 February 2020**	% *(Note)*	**28 February 2019**	% *(Note)*
Taiwan												
– Number of stores	**22**	**2.8**	**24**	**2.8**	**22**	**2.5**	**–**	**–**	**–**	**–**	**–**	**–**
– Sales footage	**33,920**	**1.5**	**35,466**	**1.5**	**33,160**	**1.4**	**–**	**–**	**–**	**–**	**–**	**–**
Macau												
I.T												
– Number of stores	11	1.4	11	1.3	13	1.5	–	–	–	–	–	–
– Sales footage	35,793	1.6	35,793	1.5	38,241	1.6	–	–	–	–	–	–
Others												
– Number of stores	1	0.1	1	0.1	1	0.1	–	–	–	–	–	–
– Sales footage	1,998	0.1	1,998	0.1	1,998	0.1	–	–	–	–	–	–
Macau sub-total												
– Number of stores	**12**	**1.5**	**12**	**1.4**	**14**	**1.6**	**–**	**–**	**–**	**–**	**–**	**–**
– Sales footage	**37,791**	**1.7**	**37,791**	**1.6**	**40,239**	**1.6**	**–**	**–**	**–**	**–**	**–**	**–**
Overseas:												
Japan												
– Number of stores	26	3.3	25	2.9	22	2.5	–	–	–	–	–	–
– Sales footage	47,663	2.1	47,446	2.0	44,728	1.8	–	–	–	–	–	–
US												
– Number of stores	4	0.5	4	0.5	3	0.3	–	–	–	–	–	–
– Sales footage	12,017	0.5	12,017	0.5	10,595	0.4	–	–	–	–	–	–
Japan and US sub-total												
– Number of stores	**30**	**3.8**	**29**	**3.4**	**25**	**2.9**	**–**	**–**	**–**	**–**	**–**	**–**
– Sales footage	**59,680**	**2.7**	**59,463**	**2.5**	**55,323**	**2.3**	**–**	**–**	**–**	**–**	**–**	**–**
Other countries sub-total												
– Number of stores	**–**	**–**	**–**	**–**	**–**	**–**	**17**	**77.3**	**22**	**71.0**	**26**	**53.1**
– Sales footage	**–**	**–**	**–**	**–**	**–**	**–**	**17,440**	**73.5**	**18,859**	**63.0**	**30,943**	**52.9**
Total												
– Number of stores	**797**	**100.0**	**855**	**100.0**	**864**	**100.0**	**22**	**100.0**	**31**	**100.0**	**49**	**100.0**
– Sales footage	**2,237,665**	**100.0**	**2,421,590**	**100.0**	**2,444,243**	**100.0**	**23,713**	**100.0**	**29,931**	**100.0**	**58,521**	**100.0**

Note: Represented the approximate percentage over the respective total number of stores or sales footage

Overall comments

As shown in the above table, PRC and Hong Kong are major markets of the Group in terms of sales footage. PRC and Hong Kong accounted for approximately 74.1% and 20.1% of total sales footage as at 31 August 2020. The majority of the Group's stores are I.T stores which are multi-brand stores.

The overall number of stores and sales footage remained at similar level as at 28 February 2019 (total store count: 913; total sales footage: 2,502,764 square feet) and 29 February 2020 (total store count: 886; total sales footage: 2,451,521 square feet).

The total number of all stores decreased from 886 as at 29 February 2020 to 819 as at 31 August 2020. The total sales footage of all stores also decreased from 2,451,521 square feet as at 29 February 2020 to 2,261,378 square feet as at 31 August 2020. The decreases were primarily attributable to the decreases in number of stores and sales footage in both PRC and Hong Kong. This was in line with the

Group's strategy to control costs in response to the difficult trading environment as disclosed in the interim report for the six months ended 31 August 2020 (the "**2020/2021 Interim Report**"). Such measures included a comprehensive review of the Group's retail store portfolio and closures of certain loss-making retail locations.

2. Financial information of the Group

(a) Financial performance

(i) The following table sets out selective information of the consolidated statements of profit or loss and other comprehensive income of the Group for FY18/19, FY19/20, the six months ended 31 August 2019 ("**1H FY19/20**") and 1H FY20/21, as extracted from the annual report for the year ended 29 February 2020 of the Company (the "**2019/2020 Annual Report**") and the 2020/2021 Interim Report:

	For the six months ended 31 August		**For the year ended 29 February**	**For the year ended 28 February**
	2020	**2019**	**2020**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(unaudited)	(unaudited)	(audited)	(audited)
Turnover	2,734,698	4,015,362	7,719,378	8,832,157
Changes	*(31.9%)*	*(1.2%)*	*(12.6%)*	*5.4%*
Cost of sales	(1,241,498)	(1,520,262)	(2,955,674)	(3,192,446)
Gross profit	1,493,200	2,495,100	4,733,704	5,639,711
Gross profit margin	54.6%	62.1%	61.3%	63.9%
Operating (loss)/profit	(223,534)	144,679	(380,056)	753,614
(Loss)/profit before taxation	(291,641)	67,282	(548,341)	707,792
Income tax expense	(45,434)	(138,453)	(197,429)	(263,647)
(Loss)/profit for the year/ period	(337,075)	(71,171)	(745,770)	444,145
(Loss)/profit attributable to the Shareholders	(337,265)	(71,958)	(747,254)	442,599
(Loss)/earnings per Share (HK$)	(0.282)	(0.060)	(0.625)	0.370
Dividend per Share (HK$)	–	–	–	0.180

(ii) The following table sets out further information in respect of the Group's financial performance for FY18/19, FY19/20, 1H FY19/20 and 1H FY20/21, as extracted from the 2019/2020 Annual Report and the 2020/2021 Interim Report:

	For the six months ended 31 August				For the year ended 29 February		For the year ended 28 February	
	2020		2019		2020		2019	
	HK$'000 (unaudited)	*% over total turnover*	*HK$'000* (unaudited)	*% over total turnover*	*HK$'000* (audited)	*% over total turnover*	*HK$'000* (audited)	*% over total turnover*
Turnover								
Hong Kong and Macau	728,995	26.7%	1,480,955	36.9%	2,620,158	33.9%	3,424,832	38.8%
Same-store sales growth	(48.9%)		(5.8%)		(23.2%)		2.4%	
Gross profit margin	47.8%		58.7%		57.7%		62.5%	
PRC	1,600,039	58.5%	1,870,218	46.6%	3,751,430	48.6%	4,122,541	46.7%
Same-store sales growth	(9.3%)		5.9%		(5.3%)		1.7%	
Gross profit margin	55.3%		61.3%		60.1%		62.1%	
Japan and the US	355,680	13.0%	607,256	15.1%	1,209,238	15.7%	1,152,738	13.0%
Same-store sales growth	– *(note)*		– *(note)*		– *(note)*		– *(note)*	
Gross profit margin	60.7%		70.8%		70.0%		71.2%	
Other	49,984	1.8%	56,933	1.4%	138,552	1.8%	132,046	1.5%
Total turnover	**2,734,698**	**100.0%**	**4,015,362**	**100.0%**	**7,719,378**	**100.0%**	**8,832,157**	**100.0%**
Segment (loss)/profit								
Hong Kong and Macau	(414,329)		(153,671)		(671,718)		12,609	
PRC	104,822		29,627		(236,443)		229,105	
Japan and the US	68,151		253,790		482,856		474,858	
Other	17,822		14,933		45,249		37,042	
Operating (loss)/profit	**(223,534)**		**144,679**		**(380,056)**		**753,614**	

Note: Not available.

Hong Kong and Macau

FY18/19 and FY19/20

In FY19/20, turnover in the Hong Kong and Macau segment decreased by approximately 23.5% to approximately HK$2,620.2 million while it contributed approximately 33.9% towards the Group's total turnover (FY18/19: approximately 38.8%). The decline was primarily attributable to a reduction in the store distribution network in Hong Kong and negative comparable-store-sales-growth as a result of multiple factors including social instability and the outbreak of COVID-19.

It is noted that the Group has implemented multiple measures to control costs in response to the difficult business environment. These measures have included a comprehensive review of the Group's retail store portfolio, leading to renegotiation and exits of certain loss-making retail locations while selectively opening new ones. A net closure of 27 stores in Hong Kong and Macau segment was recorded for FY19/20. Savings were also achieved in other costs such as staff costs and marketing expenses.

Gross profit margin decreased to approximately 57.7% in FY19/20 (FY18/19: approximately 62.5%). This decline in gross profit margin was primarily due to an increase in discount related activities to boost sales volume and reduce inventory amidst the difficult business environment.

Impairment of property, furniture and equipment and right-of-use assets amounted to approximately HK$44.3 million and HK$199.3 million in FY19/20 respectively, while there was a reversal of impairment of property, furniture and equipment of approximately HK$3.3 million for FY18/19.

As a result of the above, an operating loss of approximately HK$671.7 million was recorded for the Hong Kong and Macau segment in FY19/20 (FY18/19: operating profit of approximately HK$12.6 million).

1H FY19/20 and 1H FY20/21

Turnover in the Hong Kong and Macau segment decreased by approximately 50.8% to approximately HK$729.0 million while the segment contributed approximately 26.7% towards the Group's total turnover (1H FY19/20: approximately 36.9%). Retail sales also decreased by approximately 50.9% to HK$719.2 million. Comparable-store-sales-growth registered a decline of approximately 48.9% (1H FY19/20: a decrease of approximately 5.8%). The decrease in turnover was principally attributable to a reduction in the store distribution network in Hong Kong and negative comparable-store-sales-growth. Additionally, stores in this segment were either temporarily closed or operated with reduced opening hours in 1H FY20/21 due to COVID-19 pandemic. Irrespective of the gradual reopening of stores, demand remained significantly subdued in Hong Kong and Macau. As advised by the management of the Group, this was mainly due to the weak consumer sentiment in uncertain economic environment and the substantial decline in inbound tourism as a result of travel restrictions imposed by governments.

Other income increased by approximately 200.6% to approximately HK$101.5 million in 1H FY20/21 from approximately HK$33.8 million in 1H FY19/20 mainly due to the income from the subsidies granted under the Anti-Epidemic Fund by the Hong Kong Government, namely (i) the Employment Support Scheme, which amounted to approximately HK$49.0 million, for the use of paying wages of employees from June to August 2020; and (ii) the Retail Sector Subsidy Scheme amounted to approximately HK$4.7 million, for subsidising retail stores' operations.

Gross profit margin decreased to approximately 47.8% (1H FY19/20: approximately 58.7%). This decline in gross profit margin was primarily the result of an increase in discount related activities with the objective of boosting sales volume amidst the challenging operational environment.

Impairment of property, furniture and equipment and right-of-use assets amounted to approximately HK$28.4 million and HK$139.9 million for 1H FY20/21 respectively, while impairment of property, furniture and equipment and right-of-use assets for 1H FY19/20 amounted to approximately HK$1.6 million and HK$11.7 million respectively.

As a result of the above, an operating loss of approximately HK$414.3 million was recorded for the Hong Kong and Macau segment for 1H FY20/21 (1H FY19/20: operating loss of approximately HK$153.7 million).

PRC

FY18/19 and FY19/20

Turnover of PRC operations decreased by approximately 9.0% to approximately HK$3,751.4 million which contributed towards approximately 48.6% of the Group's total turnover (FY18/19: approximately 46.7%). The sales declined substantially in January and February 2020 in a market environment defined by temporary store closures and travel restrictions in several cities of the country due to the outbreak of COVID-19.

Gross profit margin decreased by approximately 2.0% to approximately 60.1%, principally due to the extra discount-related promotions that were offered in FY19/20 with the objective of boosting sales volume.

Impairment of property, furniture and equipment, right-of-use assets and goodwill amounted to approximately HK$23.2 million, HK$115.1 million and HK$231.5 million in FY19/20 respectively, while there was a reversal of impairment of property, furniture and equipment of approximately HK$0.7 million in FY18/19.

As a result of the above, an operating loss amounting to approximately HK$236.4 million was recorded for the PRC segment in FY19/20 (FY18/19: operating profit of approximately HK$229.1 million).

1H FY19/20 and 1H FY20/21

Turnover of PRC operations decreased by approximately 14.4% from approximately HK$1,870.2 million to approximately HK$1,600.0 million in 1H FY20/21, which contributed towards approximately 58.5% of the Group's total turnover in 1H FY20/21 (1H FY19/20: approximately 46.6%). Such increase in the contribution to the Group's total turnover in 1H FY20/21 was primarily due to the decrease in turnover of approximately 50.8% from approximately HK$1,481.0 million to approximately HK$729.0 million in the Group's Hong Kong and Macau operations that dragged down the Hong Kong and Macau segment's contribution in 1H FY20/21.

As disclosed in the 2020/2021 Interim Report, although e-commerce sales have seen significant growth for PRC operations, which, based on the information provided by the management of the Group, for 1H FY19/20 and 1H FY20/21, the breakdown for PRC's e-commerce sales grew by approximately 90.3% to approximately HK$398.9 million in 1H FY20/21 compared to 1H FY19/20, this growth was not sufficient to compensate for the sales losses of approximately HK$465.3 million in 1H FY20/21 compared to 1H FY19/20 incurred by retail stores in this segment as a result of temporary closure or reduced operating hours, which reflected the various health-related and travel restrictions under COVID-19. As discussed with the management of the Group, the Group will continue to deploy resources in development of digital channels which is in line with the Group's strategy in e-commerce development since 2019 as disclosed in the 2020/2021 Interim Report. Total retail sales decreased by approximately 14.9% to approximately HK$1,580.3 million, with comparable-store-sales registering a negative growth rate of approximately 9.3% (1H FY19/20: positive growth rate of approximately 5.9%).

Gross profit margin decreased by approximately 6.0% to approximately 55.3%, principally due to the extra discount-related promotions that were offered during the period. In response to the unprecedented situation, the Group has aggressively implemented cost reduction initiatives across different levels of the business, including cuts in marketing and other discretionary expense items, to mitigate the impact of the pandemic.

Impairment of property, furniture and equipment and right-of-use assets amounted to approximately HK$14.0 million and HK$18.3 million in 1H FY20/21 respectively, while impairment of property, furniture and equipment, right-of-use assets and goodwill amounted to approximately HK$19.4 million, HK$53.8 million and HK$46.8 million for 1H FY19/20 respectively.

As a result of the above, an operating profit amounting to approximately HK$104.8 million was recorded for the PRC segment in 1H FY20/21 (1H FY19/20: operating profit of approximately HK$29.6 million).

Japan and US

For FY18/19 and FY19/20

Turnover for the Japan and US segment increased by approximately 4.9% to approximately HK$1,209.2 million amidst a challenging operational environment. Sales in this segment contributed approximately 15.7% of the Group's total turnover (FY18/19: approximately 13.0%). The unique brand collections in these regions, namely A Bathing Ape and its subsidiary lines, have proven to be resilient in an economic environment disrupted by several negative macroeconomic factors. In particular, the Group added a total of four "A Bathing Ape" and "AAPE" stores in Tokyo and Osaka, Japan and Miami, the US in FY19/20.

Gross profit margin slightly decreased to approximately 70.0% (FY18/19: approximately 71.2%) while operating profit increased by approximately 1.7% to approximately HK$482.9 million.

1H FY19/20 and 1H FY20/21

The Japan and US segment, which accounted for approximately 13.0% of the Group's total turnover in 1H FY20/21 (1H FY19/20: approximately 15.1%), has had to navigate the same difficult pandemic-implicated business environment. Turnover of the Japan and US segment decreased by approximately 41.4% to approximately HK$355.7 million while gross profit margin decreased by approximately 10.1% to approximately 60.7% for 1H FY20/21 (1H FY19/20: approximately 70.8%). It is noted that the Group was extending the presence of "A Bathing Ape" and "AAPE" brands globally, both online and offline. The segment profit declined by approximately 73.1% from approximately HK$ 253.8 million in 1H FY19/20 to approximately HK$ 68.2 million in 1H FY20/21.

The Group

For FY18/19 and FY19/20

Turnover of the Group declined by approximately 12.6% to approximately HK$7,719.4 million in FY19/20 (FY18/19: approximately HK$8,832.2 million).

Gross profit decreased by approximately 16.1% and gross profit margin decreased by approximately 2.6% mainly due to the extra discount activities that were offered in FY19/20. These were caused by multiple macro factors, such as the Sino-US trade dispute, regional social events and the outbreak of COVID-19 at the beginning of 2020, placed significant downward pressure on the retail environment and consumer sentiment in many of the Group's operating regions. Although the Group's initial strategy was to focus on full-price sales and reduce discount-driven promotions in order to secure gross profit margin, inevitably the Group had to increase mark-downs to boost sales volume amidst an incredibly difficult operating environment.

Total operating costs as a percentage of sales increased to approximately 63.5% (FY18/19: approximately 55.8%). This was predominately due to the impact of the sales decline and the non-cash impairment provision.

The Group recorded operating loss amounted to approximately HK$380.1 million in FY19/20, with the decrease being principally due to the pressure from gross profit decline and the non-cash impairment provision.

In FY19/20, non-cash impairment provision on property, furniture and equipment, right-of-use assets and goodwill amounted to approximately HK$67.5 million, HK$314.4 million and HK$231.5 million respectively while a reversal of impairment provision on property, plant and equipment of approximately HK$4.0 million was recorded for FY18/19. The aforesaid impairment provision was recognised to reflect the decrease in value of the assets as of the year-end date in particular for the PRC segment and the Hong Kong and Macau segment.

Finance costs increased from approximately HK$42.9 million in FY18/19 to approximately HK$154.8 million in FY19/20 mainly arising from interest expenses on lease liabilities following the Group's first adoption of "Hong Kong Financial Reporting Standard **("HKFRS**") 16 Leases" in FY19/20.

As a result of the above, net loss of the Group amounting to approximately HK$745.8 million was recorded in FY19/20 (FY18/19: net profit of approximately HK$444.1 million).

1H FY19/20 and 1H FY20/21

Turnover of the Group declined by approximately 31.9% to approximately HK$2,734.7 million in 1H FY19/20 (1H FY18/19: approximately HK$4,015.4 million). The sales contribution from e-commerce has increased to approximately 25% in 1H FY20/21 compared to approximately 9% in 1H FY19/20 resulting from the Group's effort to redirect the customer flow to digital channels including its own e-commerce channel and via third-party online marketplaces through online promotional campaigns, as some of the Group's stores were temporarily closed and with travel restrictions in place during 1H FY20/21, as disclosed in the 2020/2021 Interim Report.

Gross profit margin decreased by approximately 7.5% to approximately 54.6%, which was principally due to the extra discount activities that were offered in 1H FY20/21.

The pandemic had a significant negative impact on the assessment of the Group's non-financial assets and impact on the results of 1H FY20/21. Consequently, the Group recognised non-cash impairment on non-financial assets, being provision for impairment of property, furniture and equipment and right-of-use assets of approximately HK$200.7 million in 1H FY20/21. The Group has aggressively implemented cost control measures across all regions and all levels to mitigate the negative impact of COVID-19 situation, total operating costs as a percentage of sales increased to approximately 66.3% in 1H FY20/21 (1H FY19/20: approximately 57.6%) as a result of the considerable decline in sales.

As a result of the above, the Group's operating loss in 1H FY20/21 amounted to approximately HK$223.5 million, which was principally due to the pressure from turnover and gross profit decline.

Net loss of the Group amounted to approximately HK$337.1 million in 1H FY20/21 (1H FY19/20: net loss of approximately HK$71.2 million), which was mainly attributable to the segment loss of approximately HK$414.3 million for the Hong Kong and Macau segment.

(b) Financial position

The following table sets out the consolidated statement of financial position of the Group as at 28 February 2019, 29 February 2020 and 31 August 2020, as extracted from the 2019/2020 Annual Report and the 2020/2021 Interim Report:

	Notes	**As at 31 August 2020** *HK$'000* (unaudited)	**As at 29 February 2020** *HK$'000* (audited)	**As at 28 February 2019** *HK$'000* (audited)
Non-current assets				
Land use rights		–	–	38,631
Property, furniture and equipment	(i)	1,109,629	1,161,391	954,964
Right-of-use assets	(ii)	1,622,228	1,900,465	–
Intangible assets		92,054	91,169	321,948
Investments in and loans to joint ventures		114,336	121,303	167,879
Investment in associate		439,977	441,879	–
Rental deposits		222,966	271,172	346,422
Prepayments for non-current assets		41,149	21,236	52,672
Deferred income tax assets		153,693	137,517	110,037
Total non-current assets		3,796,031	4,146,132	1,992,843
Current assets				
Inventories	(iii)	1,522,266	1,722,110	1,538,037
Trade and other receivables		213,552	218,006	300,171
Amounts due from joint ventures		71,563	33,765	132,311
Amount due from an associate		–	272	–
Rental deposits, prepayments, and other deposits		267,548	284,573	379,256
Current income tax recoverable		2,728	2,474	1,989
Cash and cash equivalents	(iv)	1,566,870	1,456,807	1,771,957
Total current assets		3,644,527	3,718,007	4,123,721
Current liabilities				
Borrowings	(v)	576,037	463,290	505,995
Trade payables		416,432	491,317	414,120
Accruals and other payables		438,681	469,974	680,339
Contract liabilities		44,212	37,844	21,922
Lease liabilities	(vi)	856,276	958,142	–
Derivative financial instruments		–	–	11,003
Amounts due to joint ventures		8,255	26,840	24,165
Amount due to an associate		1,071	–	–
Current income tax liabilities		113,097	81,593	78,327
Total current liabilities		2,454,061	2,529,000	1,735,871

	Notes	As at 31 August 2020 *HK$'000* (unaudited)	As at 29 February 2020 *HK$'000* (audited)	As at 28 February 2019 *HK$'000* (audited)
Non-current liabilities				
Borrowings	(v)	1,432,546	1,463,928	653,981
Lease liabilities	(vi)	1,407,502	1,440,713	–
Accruals		6,367	6,163	6,125
Derivative financial instruments		13,146	4,145	1,773
Deferred income tax liabilities		50,705	52,621	67,294
Total non-current liabilities		2,910,266	2,967,570	729,173
Equity				
Share capital		119,580	119,580	119,580
Reserves		1,953,069	2,244,153	3,528,701
Non-controlling interests		3,582	3,836	3,239
Total equity		2,076,231	2,367,569	3,651,520
Net asset value per Share (HK$)		1.74	1.98	3.05

Notes:

Major assets

As at 31 August 2020, the major assets of the Group comprised property, furniture and equipment of approximately HK$1,109.6 million, right-of-use assets of approximately HK$1,622.2 million, inventories of approximately HK$1,522.3 million and cash and cash equivalents of approximately HK$1,566.9 million.

(i) Property, furniture and equipment

As at 29 February 2020, property, furniture and equipment amounted to approximately HK$1,161.4 million and were mainly consisted of leasehold improvements of approximately HK$480.0 million, construction in progress of approximately HK$361.1 million and land and buildings of approximately HK$208.1 million while property, furniture and equipment amounted to approximately HK$1,109.6 million as at 31 August 2020. As a result of the impairment tests, the Group recognised an impairment of the property, furniture and equipment of approximately HK$42.4 million and HK$67.5 million during 1H FY20/21 and FY19/20 respectively.

(ii) Right-of-use assets

Right-of-use assets represent a lessee's right to use the underlying leased assets. The Company adopted the "HKFRS 16 Leases" for annual periods beginning on or after 1 March 2019.

Upon adoption of "HKFRS 16 Leases", operating lease rental of premises under "Hong Kong Accounting Standard ("**HKAS**") 17 Leases" is no longer incurred. Instead, depreciation of right-of-use assets and finance costs associated with lease liabilities are recognised in the statement of profit or loss. Right-of-use assets are subject to impairment tests.

31 August 2020 and 29 February 2020

As at 31 August 2020, right-of-use assets represented properties leases of approximately HK$1,586.2 million (29 February 2020: approximately HK$1,864.6 million) and the land use rights located in the PRC of approximately HK$36.0 million (29 February 2020: approximately HK$35.9 million).

28 February 2019

Prior to the adoption of "HKFRS 16 Leases" by the Company, operating leases are not required to be recognised as assets.

(iii) Inventories

Inventories are merchandise stock of fashion wear and accessories for resale. As at 28 February 2019, 29 February 2020 and 31 August 2020, inventories amounted to approximately HK$1,538.0 million, HK$1,722.1 million and HK$1,522.3 million respectively.

In FY18/19, FY19/20 and 1H FY20/21, the cost of inventories was recognised as an expense and included in cost of sales amounting to approximately HK$3,127.2 million, HK$2,882.6 million and HK$1,186.7 million respectively. Provision for write-downs of inventories to net realisable value amounted to approximately HK$14.5 million, HK$56.9 million and HK$18.1 million in FY18/19, FY19/20 and 1H FY20/21, respectively.

Set out below are the inventory turnover for the six months ended 31 August 2019 and 31 August 2020 respectively, as well as for the two years ended 29 February 2020:

	31 August 2020	**31 August 2019**	**29 February 2020**	**28 February 2019**
Inventory turnover (days) *(Note)*	240	191	199	168

Note:

Inventory turnover is calculated based on the average of the inventories at the beginning and at the end of the year/period divided by cost of sales times number of days during the year/period.

29 February 2020 and 28 February 2019

The average inventory turnover cycle of the Group increased by 31 days for FY18/19 to 199 days for FY19/20. According to the 2019/2020 Annual Report, the decline in inventory turnover efficiency was resulted from temporary store closures and weaker sales performance in several of the Group's operating regions as a result of negative macroeconomic conditions and the outbreak of COVID-19.

31 August 2020 and 31 August 2019

The average inventory turnover days further increased by 41 days from 191 days for 1H FY19/20 to 240 days for 1H FY20/21. According to the 2020/2021 Interim Report, there were rapid adjustments to stock ordering and the Group was able to reduce the stock-in-trade. However, there was still an oversupply of spring/summer merchandise as a result of the substantial drop in consumer demand during the pandemic. The Group has taken forceful actions to manage the rapid changes in customer behaviour and the decrease in demand caused by COVID-19. This was reflected in many parts of the business, including areas such as inventory purchasing, rents, advertising and promotions.

(iv) Cash and cash equivalents

Cash and cash equivalents amounted to approximately HK$1,772.0 million as at 28 February 2019 and decreased by approximately 17.8% to HK$1,456.8 million as at 29 February 2020, while increased by approximately 7.6% to HK$1,566.9 million as at 31 August 2020.

Major liabilities

As at 31 August 2020, the major liabilities of the Group were total borrowings of approximately HK$2,008.6 million and total lease liabilities of approximately HK$2,263.8 million.

(v) Borrowings

Borrowings are bank borrowings which bear interest at floating rates. The bank borrowings are principally denominated in Hong Kong dollar. As at 28 February 2019, 29 February 2020 and 31 August 2020, total borrowings of the Group amounted to approximately HK$1,160.0 million, HK$1,927.2 million and HK$2,008.6 million, respectively.

As at 31 August 2020, the Group had aggregate banking facilities of approximately HK$3,347.3 million at floating rate for overdrafts, term loans, revolving loans and trade financing, of which approximately HK$1,247.2 million was unutilised on the same date. These facilities were mainly secured by corporate guarantees provided by the Company and certain subsidiaries as well as pledges of land and buildings.

Set out below is the net debt/net cash position and net debt to equity ratio as at 28 February 2019, 29 February 2020 and 31 August 2020:

	31 August 2020	**29 February 2020**	**28 February 2019**
(Net debt)/net cash (HK$ million) *(Note 1)*	(441.7)	(470.4)	612.0
Debt to equity ratio (%) *(Note 2)*	205.8	182.7	31.8

Notes:

1. Represented cash and cash equivalents less total borrowings.
2. Represented total debt divided by total equity.

Net debt is defined as total debts less cash and cash equivalents. The Group turned from a net cash position of approximately HK$612.0 million as at 28 February 2019 to a net debt position as at 29 February 2020 and 31 August 2020 of approximately HK$470.4 million and HK$441.7 million respectively, which were primarily due to the increase in total borrowings of the Group, amounted to approximately HK$1,927.2 million and HK$2,008.6 million while cash and cash equivalents amounted to approximately HK$1,456.8 million and HK$1,566.9 million, respectively. Total debt to equity ratio increased from approximately 31.8% for FY18/19 to approximately 182.7% and 205.8% for FY19/20 and 1H FY20/21 respectively mainly due to the impact of the adoption of "HKFRS 16 Leases" on 1 March 2019 and increase in bank borrowings.

As set out in Appendix I to the Scheme Document, as at 31 December 2020, being the latest practicable date for the purpose of ascertaining the indebtedness of the Group had prior to the date of the Scheme Document, the Group current bank borrowings of approximately HK$429.2 million and non-current bank borrowings of approximately HK$1,418.6 million.

(vi) Lease liabilities

The Group has adopted "HKFRS 16 Leases" since 1 March 2019. As at 1 March 2019, 29 February 2020 and 31 August 2020, total lease liabilities amounted to approximately HK$2,444.3 million, HK$2,398.9 million and HK$2,263.8 million, representing the leases which had previously been classified as 'operating leases' under the principles of "HKAS 17 Leases". Lease liabilities are measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate.

(c) The latest trading update

On 26 February 2021, the Company issued an announcement in respect of the trading update for the three months and nine months ended 30 November 2020 (the "**Trading Update**"). Pursuant to Rule 10 of the Takeovers Code, the unaudited gross profit margins for the three months and nine months ended 30 November 2020 as disclosed in the Trading Update constitute a profit estimate which have been reported on by PricewaterhouseCoopers, the auditor of the Company, and us, details of which are set out in Appendix VI "Trading Update Announcement" to the Scheme Document.

The following unaudited financial information of the Group is extracted from the Trading Update:

Same-store-sales-growth (in their respective local currencies) – key operating markets:

	Three months ended 30 November 2020 Year-on-year ("**YoY**") change	**Nine months ended 30 November 2020** YoY change
Hong Kong and Macau	(23.5%)	(42.0%)
PRC	5.1%	(3.9%)
Japan and the US	(36.8%)	(48.0%)

Gross profit margin *(Note)* **– key operating markets:**

	Three months ended 30 November 2020	YoY change *(points)*	**Nine months ended 30 November 2020**	YoY change *(points)*
Hong Kong and Macau	56.4%	(2.2%)	50.8%	(7.9%)
PRC	61.7%	0.2%	57.8%	(3.6%)
Japan and the US	62.8%	(6.7%)	61.5%	(8.9%)
Group	**61.1%**	**(1.2%)**	**57.1%**	**(5.1%)**

Note: Gross profit margin represents the gross profit divided by the revenue for the respective periods.

As shown above, other than the slight YoY growth for PRC operations of approximately 5.1% for the three months ended 30 November 2020, all operating segments recorded negative YoY same-store-sales-growth for the three months and nine months ended 30 November 2020. As stated in the Trading Update, the Group's sales performance was severely impacted by the COVID-19 situation over the period. The decline in same-store-sales-growth in most markets was primarily a result of COVID-19 related restrictions and the decline in inbound tourism. The PRC segment has seen positive same-store-sales growth in the third quarter of the financial year ending 28 February 2021 after a gradual recovery from the public health crisis during the period.

In terms of gross profit margins, all operating segments recorded YoY decreases for the three months and nine months ended 30 November 2020 (except for the slight year-on-year increase of approximately 0.2% in gross profit margin for PRC operations for the three months ended 30 November 2020), which was principally due to the extra discount-related promotions that were offered during the period to boost sales.

As stated in the Trading Update, that the Group recognised non-cash impairment of non-financial assets of approximately HK$119.8 million for the Hong Kong and Macau segment in its unaudited consolidated management accounts for the three months ended 30 November 2020 as a result of the overall market conditions caused by the COVID-19 pandemic and its continuous adverse impact on the short-term to long-term economy. Together with the non-cash impairment of non-financial assets of approximately HK$200.7 million recognised in 1H FY20/21, the Group recognised non-cash impairment of non-financial assets of approximately HK$320.5 million in total for the nine months ended 30 November 2020. No such impairments were recognised for the three months ended 30 November 2019.

Overall comments

The Group's recent operating and financial performance was adversely affected primarily by the COVID-19 pandemic. The Group's turnover decreased by approximately 12.6% to approximately HK$7,719.4 million from FY18/19 to FY19/20 and decreased by approximately 31.9% to approximately HK$2,734.7 million from IH FY19/20 to 1H FY20/21. Besides, there was a reduction in the number of self-managed stores by approximately 8.4% from 864 as at 28 February 2019 to 797 as at 31 August 2020, and franchised stores from 49 as at 28 February 2019 to 22 as at 31 August 2020. The aforesaid factors have ultimately led to the substantial decline in the Group's turnover.

PRC and Hong Kong operations are major revenue contributors of the Group. In FY19/20, both of the PRC segment and the Hong Kong and Macau segment incurred losses. In 1H FY20/21, the PRC operations recorded segment profit which partially offset the loss incurred from the Hong Kong and Macau segment. Japan and US operations recorded segment profit in FY19/20. However, the Japan and US segment's profit plunged by approximately 73.1% in 1H FY20/21 as compared to that of 1H FY19/20. The deterioration of the financial performance of the Group in FY19/20 and 1H FY20/21 was primarily attributable to the substantial losses incurred from Hong Kong and Macau operations in FY19/20 and 1H FY20/21. The Hong Kong and Macau segment registered negative same-store-sales growth rate of approximately 23.5% for the three months ended 30 November 2020 on YoY basis.

The Group has implemented measures to control costs. However, the savings in operating costs were not sufficient to offset the decline in sales and gross profit margin. In addition, the Group has recognised a significant amount of impairment provision on property, furniture and equipment, and right-of-use assets.

As a result, the Group recorded loss attributable to the Shareholders of approximately HK$747.3 million and approximately HK$337.3 million in FY19/20 and 1H FY20/21 respectively in contrast to profit attributable to the Shareholders of approximately HK$442.6 million in FY18/19. The Group has issued six announcements of profit warning since 21 August 2019. The Group did not declare any dividend for FY19/20.

The financial position of the Group was also affected by the deterioration of the financial performance. The Group turned from a net cash position of approximately HK$612.0 million as at 28 February 2019 to a net debt position as at 29 February 2020 and 31 August 2020 of approximately HK$470.4 million and HK$442.6 million respectively, primarily due to the increase in total borrowings, from approximately HK$1,160.0 million as at 28 February 2019 to approximately HK$1,927.2 million as at 29 February 2020 and approximately HK$2,008.6 million as at 31 August 2020.

3. Reasons for and benefits of the Proposal and intention regarding the Group

Based on the Explanatory Statement, it is expected that the Proposal can achieve a number of objectives and benefits as set out below:

(a) For the Company: a proposal to facilitate a necessary transformation of the business amid challenging market conditions alongside a highly accomplished partner. In light of change of consumer preference to online shopping in the retail industry, the Company has undertaken restructuring efforts to reposition its businesses and improve its competitive advantage

Structural shifts in the retail industry: The past few years have been unprecedentedly challenging for the Company and the fashion retail industry as a whole. The development of e-commerce platforms, the adoption of offline to online sales channels, and new online direct-to-consumer brands have caused customers to gradually shift their preferences from shopping in physical outlets to shopping online. As a result, customers are more regularly bypassing physical retailers and purchasing directly online.

These developments have impacted the competitive position and financial performance of the Company, which predominantly derives its sales from physical retail store channels. In 1H FY20/21, physical retail sales still contributed approximately 75% of the Company's total sales. While the Company has adopted online strategies and intends to continue to develop these online strategies in the next several years, the implementation of these strategies to date, including the development of e-commerce channels on its websites and other third-party platforms (such as Alibaba's Tmall and participating in Double 11 Festival campaigns), has been unable to offset a decline in sales from its physical retail outlets of the Group (comprising the Brand Operations and the Other Operations with both operating physical retail outlets). In 1H FY20/21, despite a growth of approximately 97.9% in online sales from the corresponding period in 2019, online sales growth was unable to offset the decline in sales from retail stores, and the total turnover of the Group, decreased by approximately 31.9% from the corresponding period in 2019. This followed the Group's annual net loss in FY19/20 of approximately HK$745.8 million.

Deteriorating operating environment: Aside from structural changes to the industry, consumer spending has sharply declined in several key markets. The outbreak of COVID-19 has significantly impacted the Company's business performance across multiple regions. The Group operates in three key markets, namely Hong Kong and Macau (approximately 26.7% of total sales for 1H FY20/21), PRC (approximately 58.5% of total sales for 1H FY20/21), Japan and US (approximately 13.0% of total sales for 1H FY20/21). A large part of the Group's sales in Hong Kong and Japan are derived from inbound tourism, which has seen a sharp decline due to the pandemic and stringent travel restrictions. In particular, inbound tourism to Hong Kong has plunged during 2020, with arrivals during the year declining by approximately 93.6% to an extremely low level. Hong Kong's Gross Domestic Product ("**GDP**") for 2020 contracted by approximately 6.1% in real terms compared to 2019.

In Japan, inbound visitor arrivals declined by approximately 87.1% during 2020 from a year earlier, which also affected the Group's sales performance in Japan. Against the backdrop of global travel recovery being highly uncertain which was evidenced by the recent capacity reduction in some of the major airlines, the Company foresees a long and challenging journey ahead until a full restoration of consumer confidence and normal inbound tourism arrivals across most regions where the Company operates.

As disclosed in the Trading Update, in the three months ended 30 November 2020, the Group recorded a same-store-sales decline of approximately 23.5% in the Hong Kong and Macau segment and a decline of approximately 36.8% in the Japan and US segment compared to the corresponding period in 2019.

The PRC retail apparel market is mainly driven by domestic consumption and the Group recorded a modest recovery in the three months ended 30 November 2020, where its same-store-sales increased by approximately 5.1% compared to the corresponding period in 2019 as disclosed in the Trading Update. However, growth in PRC was unable to offset the Group's sluggish recovery in the other key markets where the Group operates.

Ongoing ability to finance: Although the Company has implemented several short-term measures to temporarily counter the impact of economic headwinds, the Company also recognises that the shift of consumer preferences and an elaborate reduction of global tourism will have a lasting impact. Consequently, the Company's business performance and overall market sentiment towards traditional brick-and-mortar retail business model have affected the Company's ability to procure steady and long-term financing. In view of bankruptcy or bankruptcy protection filings of retail brands such as J.C. Penney Co. and Brooks Brothers Group Inc. and Topshop-owner Arcadia Group in 2020, commercial banks have generally taken a more prudent approach towards refinancing retail businesses. As of 31 August 2020, the Company had approximately HK$2.0 billion of credit facilities and approximately HK$1.6 billion of cash and equivalents. Approximately HK$1.7 billion of these credit facilities will become due by the end of 2022, of which a total of approximately HK$455 million will become due by the end of April 2021. Various anti-epidemic government assistance programmes in Hong Kong, including the Employee Support Scheme for subsidising the payment of wages to employees (which ended in November 2020) and the Retail Sector Subsidy Scheme (which provided the Group with a one-off subsidy for its retail stores), served as a temporary buffer to cushion the recent adverse impacts from macro challenges. However, in the near term as these loans mature, it is uncertain whether the Company would be able to roll over or secure new long-term financing with similar terms and conditions. The limited trading liquidity and depressed share price have also impacted the Company's ability to seek equity financing in the public market without causing a significant dilution to the incumbent shareholders of the Company.

The Company believes that the Restructuring would allow the Brand Operations, with better cash generative capabilities, to surface as a more feasible borrower to secure long-term financing; while preserving sufficient cash for the Other Operations to weather through the retail headwind, before a potentially successful turn-around in the future. The Brand Operations was more feasible to secure long-term bank financing than the Group, primarily because that after Restructuring, the loans extended by the banks to the Brand Operations will be ring-fenced from Other Operations, which have significant Hong Kong retail exposure, and are currently running at an operating loss and negative cash flow. In the section headed "Information relating to the Brand Operations" in the letter from the Board in Part IV of the Scheme Document, on 6 December 2020, the Offeror secured a debt commitment from BNP Paribas and Standard Chartered Bank (Hong Kong) Limited relating to a five-year term loan facility for up to approximately HK$1,800,000,000 and a revolving credit facility for up to approximately HK$200,000,000. The facilities are available to the Company subject to the Scheme becoming effective and the completion of the Restructuring, and would allow the Company to repay all of its existing borrowings that are coming due in the next 20 months. This would reduce short-term pressure to repay debt so that the Brand Operations and the Other Operations can focus on business transformation over the medium term. Such refinancing would not have been otherwise available to the Company if it does not implement the Scheme and complete the Restructuring. The magnitude of the Restructuring would also have been difficult to orchestrate under a publicly listed setting as the Company would be subject to various regulatory and financial reporting obligations and pressure from share price reactions.

CVC Network's credibility and track record in business turnaround as well as its long-term relationship with commercial banks were instrumental in securing the recent five-year debt commitment from commercial banks relating to a term loan facility for up to approximately HK$1,800,000,000 and a revolving credit facility for up to approximately HK$200,000,000 for refinancing the existing external bank debt of the Group and for the Brand Operations. The drawdown of credit facilities under the Refinancing Document will be conditional upon, amongst others, (a) the Scheme becoming effective, and (b) completion of most of the Restructuring steps (subject to ongoing transitional arrangements). The Company believes that it would be highly unlikely for the Company to refinance its sizeable debt on its own without having CVC Network as a partner for the Restructuring.

Evaluation of viable options: The Founder Group had been evaluating strategic options with respect to its large exposure to the Company on an ongoing basis and remains committed to the long-term prospects of the Company. The Founder Group, as the controlling shareholder of the Company, had considered a number of alternatives, including but not limited to spin-off and listing of the Brand Operations, or a minority stake sale of the Brand Operations. These alternatives faced various practical limitations from regulatory and commercial standpoints such as competition between Brand Operations and Other Operations and the listing viability of the Other Operations after spin-off and these alternatives do not resolve the immediate concern to secure a long-term refinancing. Consequently, the Founder Group considers privatisation with a partner followed by the Restructuring as the most viable option to return value to the Shareholders at a significant premium over historical trading prices and the consolidated net asset value attributable to Shareholders per Share as at 31 August 2020, while resolving the Company's most imminent financing needs.

Financial and operational resources from CVC Network: The Founder Group considers the partnership with CVC Holdco, ultimately owned by CVC Funds being a leading global long-term strategic financial investor with efficiency optimisation capabilities and a synergetic brand portfolio, to be advantageous. CVC Network contributed to the Company's financial resources by assisting the Company to secure long-term financing. In addition to financial resources, CVC Network will also bring in valuable operational resources with CVC Funds as a significant minority shareholder. In particular, CVC Network's strong track record in managing brand and retail companies such as Samsonite, Formula 1, Breitling and MAP Active, a seasoned global advisory board with comprehensive experience in the retail industry, and its extensive global network will all be operational resources that will be instrumental to the growth and value creation of the Brand Operations.

The Joint Offerors plan to implement the Restructuring and contribute financial and operational resources to the Group in order to reinvigorate growth over a long period through online infrastructure expansion, selective branding, implementing location strategies and exploring new business opportunities. Together with a shared ambition to uncover potential for the Brand Operations, a partnership between the Company and CVC Network will provide the optimal structure and platform for both sides to unleash their respective strengths in realising the common objective to create long-term values for the Brand Operations while allowing the Founder Holdco to take the necessary steps to revive the Other Operations.

The Company's transformation will involve execution, market and financial risks and the associated benefits (if any) will require a long time to materialise. The Offeror believes that such changes, if successful, may bolster the long-term competitiveness of the Company, but they can be more effectively implemented if the Company is privatised and operated away from the public market without ongoing pressures of short-term business performance or the pressure arising from the near-term refinancing needs.

(b) *For Scheme Shareholders: an attractive opportunity to realise their investment at a premium*

In light of the challenging market environment and the execution, market and financial risks in implementing a strategic transformation, the Proposal provides an attractive opportunity for the Non-Founder Scheme Shareholders to monetise their Shares at a premium to historical trading prices. The Cancellation Price of HK$3 for each Non-Founder Scheme Share represents a premium of approximately 54.6% over the closing price of HK$1.940 per Share as quoted on the Stock Exchange on the Last Trading Date, and a premium of approximately 135.5% and 173.0% over the average closing price of approximately HK$1.274 and HK$1.099 per Share for 30 and 90 trading days up to and including the Last Trading Date, a premium of approximately 7.5% over the closing price of HK$2.79 per Share as quoted on the Latest Practicable Date, a premium of approximately 51.8% to the audited consolidated net asset value attributable to Shareholders per Share of approximately HK$1.977 as at 29 February 2020 and a premium of approximately 73.1% to the unaudited consolidated net asset value attributable to Shareholders per Share of approximately HK$1.733 as at 31 August 2020, respectively.

The average daily trading volume of the Shares for the twelve months up to and including the Last Trading Date was approximately 961,361 Shares per day, representing only approximately 0.08% of the issued Shares as at the Last Trading Date. This low level of trading liquidity of the Shares makes it difficult for the Shareholders to sell their shareholdings in large volume on the secondary market without adversely affecting Share price.

The Proposal provides the Non-Founder Scheme Shareholders with an opportunity to immediately realise their investment in the Company for cash amid the tremendous market uncertainty without taking on the risks facing the retail industry in key markets including Hong Kong and Macau as well as Japan and the US, and the uncertainty over the Group's restructuring of its retail operations and its imminent refinancing needs as described above.

Overall comments

As disclosed in the section headed "2. Financial information of the Group" above, we note that the Group's financial performance has been deteriorating since 1H FY19/20 and severely affected by, among other things, the social instability in Hong Kong in the second half of 2019 and subsequently followed by the outbreak of COVID-19. In particular, turnover decreased by approximately 12.6% to approximately HK$7,719.4 million from 28 February 2019 to 29 February 2020 and decreased by approximately 31.9% to approximately HK$2,734.7 million from 1H FY19/20 to 1H FY20/21. The business environment in which the Group operated has been adversely affected by the outbreak of COVID-19 which has further aggravated a difficult operational environment.

In the midst of the COVID-19 pandemic, consumers' spending enthusiasm was affected and inbound tourism in several of the Group's principal operating markets such as Hong Kong, Macau and Japan experienced a sharp decline due to the travel restrictions and quarantine measures imposed by governments. As a result, these have adversely impacted the Group's sales performance.

It is difficult to predict the full impact of COVID-19 pandemic on the economic activities around the globe and the challenges to the retail industry brought by the gradual shift of consumer preference to shop online. COVID-19 pandemic and the change in consumer behaviour will continue to weigh on the retail sector.

As disclosed in the 2020/2021 Interim Report, the Group has accelerated the pace of the digital development from 2019 through their own e-commerce channel and via third-party online marketplaces, focusing on redirecting the customer flow to digital channels through online promotional campaigns. It is noted that e-commerce sales registered a growth rate of approximately 97.9% and sales contribution from e-commerce sales increased to approximately 25% of the total turnover in 1H FY20/21 as compared to 1H FY19/20, however the growth was not sufficient to compensate for the sales losses of approximately HK$465.3 million in 1H FY20/21 compared to 1H FY19/20 incurred by the Group's retail stores. The overall turnover of the Group decreased by approximately 31.9% from approximately HK$4,015.4 million in 1H FY19/20 to approximately HK$2,734.7 million in 1H FY20/21.

As a result, the Group has also taken forceful actions to manage the rapid changes in consumer behaviour and the decrease in demand caused by COVID-19. This was reflected in many parts of the business, including areas such as inventory purchasing, rents, advertising and promotions. The Group has also undertaken a comprehensive review of the shop portfolio, further optimising and integrating the sales channels. However, the savings in operating costs were not sufficient to offset the decline in sales and gross profit margin and hence the Group incurred losses.

The Joint Offerors plan to contribute financial and operational resources to the Company in order to reinvigorate growth over a long period through online infrastructure expansion, selective branding, implementing location strategies and exploring new business opportunities. The transformation will involve execution, market and financial risks. Given the uncertain economic and business outlook, it will require time to materialise the associated benefits, if successful. Such proposed transformation may involve equity fundraising and/or disposal of assets. As a listed company, this would be subject to disclosure and shareholders' approval requirements under the Listing Rules, leading to increased timing and uncertainty in the execution of the plans.

The Group has accelerated the pace of digital development. A significant growth in online sales was recorded in 1H FY20/21 as compared to 1H FY20/21. While the Company has adopted online strategies and intends to continue to develop these online strategies in the next several years, the online sales growth as a result of the implementation of these strategies to date, including the development of e-commerce channels on its websites and other third-party platforms, was not sufficient to offset the drop in sales of retail stores and the Group's total turnover decreased by approximately 31.9% in 1H FY20/21 as compared to 1H FY19/20. The adoption of online strategies were to be implemented alongside with the Group's existing strategy in the operations of retail stores, and would require time for business transformation to resume long-term sustainable growth of the Group. As at 31 August 2020, the Group had a total number of 819 retail stores (please refer to the section headed "1. Background information of the Group" for details). Besides, the Group's transformation to cope with the changes in consumer behaviour and pattern from time to time will involve risks, uncertainties and require adjustments from time to time.

In light of the above and in particular (i) the challenges to the retail industry brought by the gradual shift of consumer preference to shop online would continue to weigh on the Group's sales performance, the Group intends to continue to develop its online strategies to cope with the on-going changes in consumer behaviour and pattern that require prompt action. It is noted that the online sales grew significantly for 1H FY20/21 as compared to 1H FY19/20. However the online sales growth could not offset the drop in sales of retail stores in 1H FY20/21. The online sales may or may not be sufficient to cover the drop in sales of retail stores in the long term; (ii) despite the global economy is gradually recovering, COVID-19 pandemic is expected to continue to bring volatility and uncertainties to the economy in the near future as elaborated in the section headed "4. Industry overview and outlook" below; and (iii) the Group's transformation to cope with the change in consumer behaviour will involve significant risks and uncertainties and require adjustments from time to time, we believe that the on-going changes in consumer behaviour will continue to weigh on the Group's operational and financial performance in the near future given that the Group had a total number of 819 physical retail stores as at 31 August 2020 and the transformation may or may not be successful. We are of the view that the Proposal and the Scheme are in the interest of the Disinterested Shareholders.

4. Industry overview and outlook

The Group's business and financial performance is affected by the local economic activities of its operating markets.

(a) PRC

(i) Economy

The table below sets out PRC's real GDP (Real GDP is defined as the nominal GDP after adjusting for any price changes attributable to either inflation or deflation) growth for the years/ periods indicated:

				2020				
YoY growth	**2017**	**2018**	**2019**	**Q1**	**Q2**	**Q3**	**Q4**	**Full year**
Real GDP	6.8%	6.6%	6.1%	(6.8%)	3.2%	4.9%	6.5%	2.3%

Source: National Bureau of Statistic of China

PRC's real GDP grew at approximately 6.8%, 6.6% and 6.1% YoY in 2017, 2018 and 2019 respectively, showing a slowdown in growth. During the first quarter of 2020, real GDP has contracted by approximately 6.8% for the first time in history in four decades due to the ongoing COVID-19 pandemic, whereby PRC has implemented shutdowns and quarantines to limit human contact as it sought to contain disruptions caused by COVID-19 to economic activities.

PRC registered a YoY growth of real GDP of approximately 2.3% in 2020 as COVID-19 eased in the remaining quarters of 2020.

(ii) Retail industry

				2020				
YoY growth	**2017**	**2018**	**2019**	**Q1**	**Q2**	**Q3**	**Q4**	**Full year**
Garments, footwear, hats and knitwear sales	7.8%	8.0%	2.9%	(32.2%)	(19.6%)	(12.4%)	7.0%	(6.6%

Source: National Bureau of Statistic of China

With reference to the data above, retail sales for garments, footwear, hats and knitwear increased by approximately 7.8% and 8.0% in 2017 and 2018 respectively, while in 2019 the growth slowed down and recorded an increase of approximately 2.9%.

It is noted that COVID-19 outbreak significantly shifted and halted some consumption. Retailers were affected to various degrees and traditional sales and distribution channels, such as offline retail stores were temporarily closed. In particular, retails sales for garments, footwear, hats and knitwear recorded a YoY drop by approximately 32.2%. The decreases were mainly due to the outbreak of COVID-19.

The decreasing trend in the total retail sales of garments, footwear, hats and knitwear continued to the second and third quarters of 2020, although have narrowed. Retail sales of garments, footwear, hats and knitwear of PRC registered a YoY growth in the fourth quarter of 2020. Overall, for 2020, retail sales of garments, footwear, hats and knitwear have recorded a YoY decline of approximately 6.6%.

(b) Hong Kong

(i) Economy

The following table sets out Hong Kong's real GDP growth and growth in private consumption expenditure in real terms, for the years/quarters indicated:

				2020				
YoY growth	**2017**	**2018**	**2019**	**Q1**	**Q2**	**Q3**	**Q4**	**Full year**
Real GDP	3.8%	2.8%	(1.2%)	(9.1%)	(9.0%)	(3.6%)	(3.0%)	(6.1%)

Source: Census and Statistics Department of Hong Kong

As shown in the table above, Hong Kong economy as measured by the real GDP recorded a YoY negative growth rate of approximately 1.2% in 2019, whereas positive growth rate of approximately 3.8% and 2.8% were recorded in 2017 and 2018, respectively. The YoY negative growth rate in 2019 was primarily caused by softening global economic growth, elevated US-China trade tensions, the local social instability dealt a heavy blow to economic sentiment and consumption- and tourism-related activities, according to the "2019 Economic Background and 2020 Prospects" published in February 2020 prepared by the Hong Kong government. The YoY real GDP negative growth in the first quarter of 2020 further decreased to approximately 9.1%. The YoY real GDP negative growth rates were approximately 9.0% and 3.6% in the second and third quarters of 2020, respectively. For 2020 full year, the YoY real GDP negative growth registered a negative 6.1%.

(ii) Tourism

Inbound tourism is one of the main drivers of the Group's business in Hong Kong.

Set out below is the total number of visitor arrivals and relevant selective information as extracted from the website of Hong Kong Tourism Board.

	2017	**2018**	**2019**	**2020**
Total visitor arrivals (million)	58.5	65.1	55.9	3.6
By country				
– PRC	44.4	51.0	43.8	2.7
– Other	14.0	14.1	12.1	0.9
Per capita spending of overnight visitors	HK$6,443	HK$6,614	HK$5,818	–[Note]
Total tourism expenditure associated to inbound tourism	HK$296.7 billion	HK$328.2 billion	HK$256.2 billion	–[Note]

Source: Hong Kong Tourism Board

Note: Not available

With reference to the data for visitors' arrivals in Hong Kong above, the total visitor arrivals in 2018 increased by approximately 11.4% to approximately 65.1 million. Such growth in 2018 was reversed as the local social incidents in 2019 have taken a heavy toll on Hong Kong's tourism industry and the overall visitor arrivals dropped by approximately 14.2% to approximately 55.9 million in 2019. Total tourism expenditure associated to inbound tourism and per capita spending of overnight visitors also decreased by approximately 22.7% and 12.0% respectively in 2019, as opposed to the increases of approximately 2.7% for inbound tourism and approximately 10.6% for per capita spending of overnight visitors in 2018.

While the number of PRC arrivals decreased by approximately 14.2% in 2019 as opposed to an increase of approximately 14.8% in 2018, the PRC continued to be the largest visitor source market of Hong Kong, accounting for approximately 76.0% in 2017, 78.3% in 2018 and 78.3% in 2019 of the total arrivals. On the other hand, visitor arrivals from non-PRC markets also declined by approximately 14.0% in 2019, as opposed to a slight increase of approximately 0.6% in 2018.

With reference to the latest public information of tourists' arrivals for 2020, the decreasing trend continued whereby the number of visitors' arrivals dropped by approximately 93.2% to approximately 3.6 million, of which visitors from PRC dropped by approximately 93.5% to approximately 2.7 million (accounted for 75% of total visitors), on a YoY basis, due to travel restrictions.

(iii) Retail industry

				2020				
Value of retail sales *(HK$ million)*	**2017**	**2018**	**2019**	**Q1**	**Q2**	**Q3**	**Q4**	**Full year note**
Clothing, footwear and allied products	58,401	62,303	53,508	8,043	7,740	6,866	8,882	31,548
YoY growth	0.18%	6.7%	(14.1%)	(54.1%)	(46.7%)	(33.7%)	(19.8%)	(41.0%)

Source: Census and Statistics Department of Hong Kong

Note: Provisional figure

According to the Census and Statistics Department of Hong Kong, the value of retail sales of clothing, footwear and allied products increased by approximately 6.7% from approximately HK$58.4 billion in 2017 to approximately HK$62.3 billion in 2018. However, the decreasing trend started since 2019 whereby the value of retail sales of clothing, footwear and allied products decreased by approximately 14.1% from approximately HK$62.3 billion in 2018 to approximately HK$53.5 billion in 2019. For 2020, the value of retail sales of all retail sales of clothing, footwear and allied products decreased by approximately 41.0% to approximately HK$31.5 billion compared to previous year.

(c) Macau

				2020				
YoY growth	**2017**	**2018**	**2019**	**Q1**	**Q2**	**Q3**	**Q4**	**Full year**
Real GDP	9.1%	4.7%	(4.7%)	(48.7%)	(67.8%)	(63.8%)	_Note 1	_Note 1
Retail sales of adult's clothing note 2	12.6%	16.7%	(12.5%)	(52.9%)	(71.2%)	(65.4%)	(29.7%)	(53.3%)

Source: Statistics and Census Service, Government of Macau Special Administrative Region

Notes:

1. *Not available.*
2. *The most relevant category to the business of the Group in our view.*

As shown in the table above, economy of Macau as measured by the real GDP recorded a YoY growth rate from approximately 9.1% in 2017 to approximately 4.7%% in 2018, while a decline of approximately 4.7% was recorded in 2019. Macau's economy was mainly driven by services industry and was severely hit amid the epidemic with a substantial decline in total demand. In the first quarter of 2020, Macau's economy shrank by approximately 48.7% YoY owing to the epidemic of COVID-19 which significantly dampened global economic activity and recorded a further decline of approximately 67.8% and 63.8% in the second and third quarters of 2020 respectively. Likewise, in terms of retail sales of adult's clothing, a YoY growth of approximately 12.6% and 16.7% was recorded in 2017 and 2018 respectively, while from 2019 onwards to the first, second, third and fourth quarter of 2020, declines of approximately 12.5%, 52.9%, 71.2%, 65.4% and 29.7% were recorded, respectively, owing to the COVID-19 outbreak where travel restrictions have been imposed. The retail sales of adult's clothing for 2020 registered a YoY decline of approximately 53.3%.

(d) Japan

				2020			
YoY growth	**2017**	**2018**	**2019**	**Q1**	**Q2**	**Q3**	**Q4**
Real GDP	1.5%	0.6%	0.3%	(1.8%)	(10.2%)	(5.8%)	–[Note]

Source: Economic and Social Research Institute Cabinet Office, Government of Japan Note:

Not available.

As shown in the table above, the economy of Japan as measured by the real GDP recorded a decline in YoY growth rate from approximately 1.5% in 2017 to approximately 0.6% and 0.3% in 2018 and 2019 respectively. A YoY negative growth rate in real GDP was recorded in each of the first three quarters of 2020.

(e) US

(i) Economy

				2020				
YoY growth	**2017**	**2018**	**2019**	**Q1**	**Q2**	**Q3**	**Q4**	**Full year**
Real GDP	2.3%	3.0%	2.3%	0.3%	(9.0%)	(2.8%)	(2.5%)	(3.5%)
Private consumption expenditure	2.6%	2.7%	2.5%	0.2%	(10.2%)	(2.8%)	(2.6%)	(3.9%)

Source: Bureau of Economic Analysis, US Department of Commerce

As shown in the table above, economy of the US as measured by the real GDP recorded a decline in YoY growth rate from approximately 3.0% in 2018 to approximately 2.3% in 2019. A YoY growth rate of approximately 0.3% was recorded in the first quarter of 2020 followed by a negative YoY growth rate of approximately 9.0%, 2.8% and 2.5% for the second, third and fourth quarter of 2020 which was in part due to the response to the spread of COVID-19. US registered a negative YoY growth rate in GDP of approximately 3.5% in 2020.

As opposed to the YoY growth rate of approximately 2.7% and 2.5% in 2018 and 2019 respectively, private consumption recorded a slight YoY growth rate of approximately 0.2% in the first quarter of 2020 followed by a YoY negative growth rate of approximately 10.2%, 2.8% and 2.6% in the second, third and fourth quarter of 2020 respectively. US registered a negative YoY growth rate in private consumption expenditure of approximately 3.9% in 2020.

(f) Global economic outlook

YoY growth	2020e	2021p	2022p
Real GDP	(4.3%)	4.0%	3.8%

Source: World Bank

COVID-19 pandemic has caused major disruptions in the global economy. Economic activity has been hit by reduced personal interaction and uncertainties about the post-pandemic economic landscape and policies has discouraged investment and hence the economy. As with previous economic crises, the pandemic is expected to leave adverse effects on global economic activities and per capita incomes.

According to the "Global Economic Prospects Report" published by the World Bank in January 2021, COVID-19 pandemic is inflicting high and rising human costs worldwide, and the necessary protection measures are severely impacting economic activity. As a result of the pandemic, the global economy is expected to contract sharply by approximately 4.3% in 2020, much worse than the 2008–09 financial crisis. Beyond the uncertainties associated with potential future waves of COVID-19 infections, as descended on Europe and the US in late 2020, COVID-19 pandemic has put many developing countries and emerging markets in a precarious financial position and the full recovery of the world's economy remained uncertain in the near term. Although the global economy is emerging from the collapse triggered by the pandemic, the recovery is projected to be subdued. Global economic output is expected to expand approximately 4% in 2021 but still remain more than 5% below its pre-pandemic trend. Though vaccines are being rolled out, it is widely acknowledged that it may take a while for herd immunity.

Overall comments

Since 2019, the economic environment of the operating markets of the Group has been severely affected by, among other things, the US-China trade tensions and COVID-19 pandemic, causing major and continuous disruptions to economic activities and heavily affected global tourism and consumption-related sectors.

Based on the available historical data of the retail industry as presented above, PRC registered a YoY growth in the relevant sub-category of retail sales in the fourth quarter of 2020 amid the easing of the COVID-19 pandemic, while Hong Kong and Macau continued to register YoY decline of retail sales in the fourth quarter of 2020. Although the global economy is gradually recovering from the adverse impacts emerging from the collapse triggered by the pandemic, the recovery is projected to be subdued. The full recovery of the world's economy remains uncertain in the near term.

On 27 February 2021, the Centers for Disease Control and Prevention, a national public health institute in the US, stated that the recent spread of mutations of the coronavirus are more easily transmitted and potentially more deadly, which have raised concerns.

According to the National Institute of Allergy and Infectious Diseases of US, coronavirus herd immunity is considered to occur when at least two-thirds of a population are immune to the virus. As such, the timeline for having the pandemic under control would depend on how quickly people around the world are vaccinated.

The roll-out of vaccines around the world bring hope to an end to the threat of the pandemic. However, in view of the mutations of the coronavirus and the time required to inoculate the population to achieve herd immunity, measures to combat any new outbreak would affect the pace of the economic recovery. As such, the COVID-19 pandemic is expected to continue to bring volatility and uncertainties to the economy and to the Group (including the Branded Operations and Other Operations) in the near term.

5. Information on the Offeror Group, the Founder Group and the CVC Network

(a) Information on the Offeror Group

Each of EquityCo and the Offeror is an exempted company incorporated in the Cayman Islands with limited liability and set up for the implementation of the Proposal. The Offeror is wholly-owned by EquityCo.

EquityCo has three classes of shares: ordinary shares, class A preference shares and class B preference shares. Upon completion of the Restructuring, EquityCo will be owned as to 50.65% and 49.35% by Founder Holdco and CVC Holdco respectively. Founder Holdco will own all class A preference shares whereas CVC Holdco will own all class B preference shares of EquityCo.

Charts illustrate the shareholding structure of the Company (including the shareholding structure of the Founder Group and CVC Holdco) are set out in the section headed "10. Information on the Offeror Group" in "Part VII. — Explanatory Statement" in the Scheme Document.

(b) Information on the Founder Group

The Founder Group comprises Mr. Sham Kar Wai, Mr. Sham Kin Wai, Ms. Sham Sau Han, Ms. Sham Sau Wai, Mr. Fung Yuk Hung, Founder Holdco and the ABS 2000 Trust Holding Companies.

Mr. Sham Kar Wai and Mr. Sham Kin Wai founded the Group in 1988. Mr. Sham Kar Wai is an executive Director, Chairman of the Board and the chief executive officer of the Company. Mr. Sham Kin Wai is an executive Director and chief creative officer of the Company.

Details of the other members of the Founder Group are set out in the section headed "11. Information on the Founder Group" in "Part VII. — Explanatory Statement" of the Scheme Document.

(c) Information on the CVC Network

The CVC Network comprises CVC Holdco, CVC and CVC Funds.

i. CVC Holdco is set up for the implementation of the Proposal. CVC Holdco is ultimately wholly-owned by the CVC Funds. CVC Holdco is an independent third party and is not connected with and is not a person acting in concert with the Company or its subsidiaries or any connected persons of the Company (other than members of the Founder Group);

ii. CVC is a leading private equity and investment advisory firm. Founded in 1981, CVC today has a network of 23 offices and approximately 550 employees throughout Europe, Asia and the US. To date, CVC has secured commitments of more than US$120 billion from some of the world's leading institutional investors across its private equity strategies. In total, CVC currently manages over US$82 billion of assets. Today, funds managed or advised by CVC are invested in over 80 companies worldwide, employing approximately 400,000 people in numerous countries. Together, these companies have combined annual sales of over US$92 billion.

iii. CVC Funds are widely held among a large number of investors, including pension funds, sovereign wealth funds, financial institutions and various other partners.

6. Trading volume of the Shares

The table below sets out the average daily trading volume of the Shares for each month or period and the percentages of the daily traded volume and the public float of the Shares to each of the total issued Shares and the public float from 1 January 2019 to the Latest Practicable Date.

	Average Daily Trading Volume (Shares)	**Approximate % of average daily trading volume to total issued Shares** *(Note 1)*	**Approximately % of average daily trading volume to the public float** *(Note 2)*
2019			
January	5,883,334	0.49%	1.40%
February	4,705,100	0.39%	1.12%
March	6,812,516	0.57%	1.62%
April	3,788,621	0.32%	0.90%
May	5,618,425	0.47%	1.34%
June	6,117,856	0.51%	1.46%
July	8,715,671	0.73%	2.08%
August	8,664,058	0.72%	2.07%
September	5,764,769	0.48%	1.38%
October	4,820,078	0.40%	1.15%
November	11,353,367	0.95%	2.71%
December	14,990,429	1.25%	3.58%
2020			
January	6,454,613	0.54%	1.54%
February	3,759,935	0.31%	0.90%
March	8,952,774	0.75%	2.14%
April	7,064,213	0.59%	1.69%
May	25,681,803	2.15%	6.13%
June	65,959,056	5.52%	15.75%
July	15,318,028	1.28%	3.66%
August	11,024,327	0.92%	2.63%
September	7,436,297	0.62%	1.78%
October	5,596,000	0.47%	1.34%
November	3,081,905	0.26%	0.74%
December	7,369,216	0.62%	1.76%
2021			
January	2,000,880	0.17%	0.48%
February	1,360,660	0.11%	0.32%
From 1 March to the Latest Practicable Date	868,269	0.07%	0.20%
Average: 2 January 2019 to the Latest Practicable Date	949,508	0.08%	0.22%

Source: Bloomberg

Notes:

1. Based on the number of total issued Shares as at each month end or the Latest Practicable Date.

2. Based on the number of Shares held by the public as at each month end or the Latest Practicable Date as extracted from Bloomberg

As illustrated above, the average daily trading volume of the Shares during 2019 and 2020 represented (i) approximately 0.61% and 1.17% of the total issued Shares and (ii) approximately 1.73% and 3.34% of the issued Shares held by the public, respectively.

The average daily trading volume of the Shares from 2 January 2019 to the Latest Practicable Date represented approximately 0.08% and 0.22% of the total issued Shares and the Shares held by the public, respectively.

Overall comments

Given the low liquidity of the Shares, it is difficult for the Disinterested Shareholders to sell their shareholdings in large volume without adversly affecting the Share price. The Scheme represents an opportunity for the Non-Founder Scheme Shareholders to exit at the fixed Cancellation Price which is substantially above the market prices prior to the issue of the Joint Announcement.

7. Evaluation of the Cancellation Price

(a) Comparison of the Cancellation Price to closing prices and net asset value

The Cancellation Price of HK$3 per Non-Founder Scheme Share represents:

- a premium of approximately 54.6% over the closing price of HK$1.940 per Share as quoted on the Stock Exchange on the Last Trading Date;

- a premium of approximately 84.7% over the average closing price of approximately HK$1.624 per Share as quoted on the Stock Exchange for the five trading days up to and including the Last Trading Date;

- a premium of approximately 135.5% over the average closing price of approximately HK$1.274 per Share as quoted on the Stock Exchange for the 30 trading days up to and including the Last Trading Date;

- a premium of approximately 162.4% over the average closing price of approximately HK$1.143 per Share as quoted on the Stock Exchange for the 60 trading days up to and including the Last Trading Date;

- a premium of approximately 173.0% over the average closing price of approximately HK$1.099 per Share as quoted on the Stock Exchange for the 90 trading days up to and including the Last Trading Date;

- a premium of approximately 170.4% over the average closing price of approximately HK$1.109 per Share as quoted on the Stock Exchange for the 120 trading days up to and including the Last Trading Date;

- a premium of approximately 156.7% over the average closing price of approximately HK$1.169 per Share as quoted on the Stock Exchange for the 180 trading days up to and including the Last Trading Date;

- a premium of approximately 7.5% over the closing price of approximately HK$2.79 per Share as quoted on the Stock Exchange as at the Latest Practicable Date; and

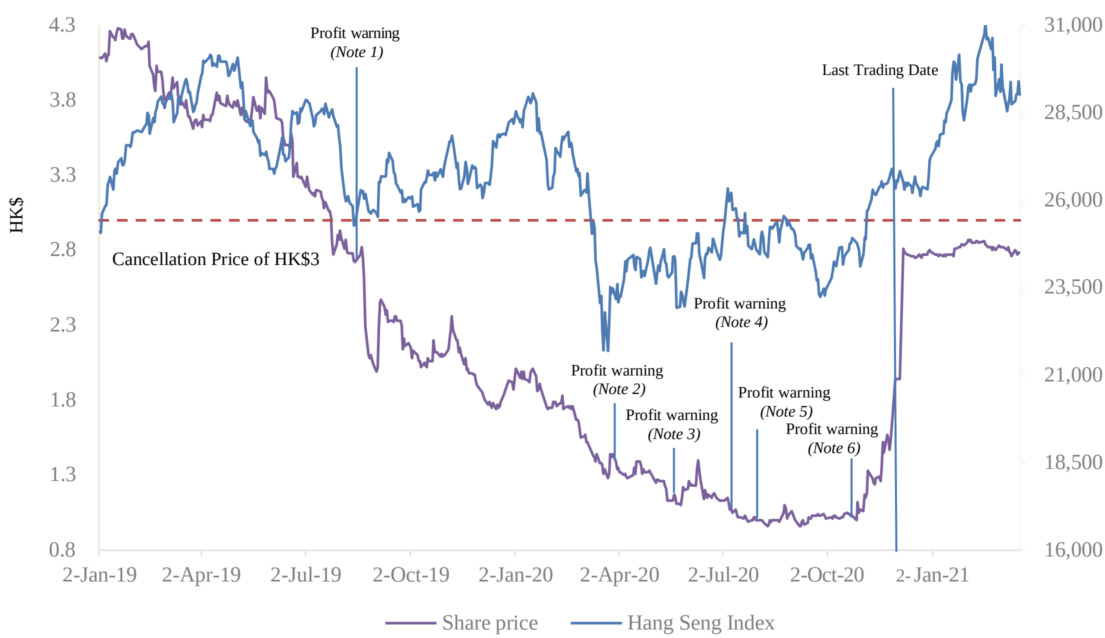
- a premium of approximately 51.8% to the audited consolidated net asset value attributable to Shareholders per Share of approximately HK$1.977 as at 29 February 2020; and

- a premium of approximately 73.1% to the unaudited consolidated net asset value attributable to the Shareholders per Share of approximately HK$1.733 as at 31 August 2020, which is calculated by the sum of the Company's total issued share capital of HK$119.58 million and total reserves of HK$1,953.07 million (which are based on the financial information disclosed in the Interim Results Announcement), divided by the total number of outstanding Shares of 1,195,797,307 as at 31 August 2020.

(b) Analysis of historical Share price performance

The charts below illustrates (i) the daily closing price of the Shares and (ii) the relative daily closing Share price performance, as quoted on the Stock Exchange and against the Hang Seng Index respectively from 1 January 2019 and up to the Latest Practicable Date.

Historical Share price performance



Source: Website of the Stock Exchange

Notes:

Extracts of profit warning announcements issued by the Company are set out below:

Date of announcement		**Indicated financial performance**
1.	21 August 2019	The Group may record a net loss for the six months ending 31 August 2019 as compared to a net profit for the six months ended 31 August 2018.
2.	9 April 2020	It is expected that the Group will incur net loss attributable to the Shareholders of not less than HK$300 million for the year ended 29 February 2020.
3.	25 May 2020	Supplemental announcement for the negative impacts and the impairment provision of goodwill, property, furniture and equipment and right-of-use assets made in the fourth quarter of the year ended 29 February 2020, the Group's net loss attributable to the Shareholders is expected to be not less than HK$700 million.
4.	30 July 2020	The Group incurred a net loss in the first quarter of the year ending 28 February 2021 as compared to a net profit in the first quarter of the year ended 29 February 2020.
5.	4 August 2020	It is expected that the Group will incur a net loss of not less than HK$100 million in the three months ended 31 May 2020 as compared to a net profit of HK$34 million in the three months ended 31 May 2019.
6.	27 October 2020	It is expected that the Group will record a net loss of not less than HK$300 million for the six months ended 31 August 2020 as compared to a net loss of HK$71 million in the six months ended 31 August 2019.

Relative Share price performance against the Hang Seng Index

Source: Website of the Stock Exchange

Note: The closing Share price and Hang Seng Index as at 2 January 2019 have been rebased to 100 for ease of comparison

With reference to the chart for the relative Share price performance against the Hang Seng Index above, since 2 January 2019 and up to the Last Trading Date, the Share price displayed a downward trend and underperformed the Hang Seng Index.

With reference to the chart for the historical Share price performance and the Hang Seng Index above, from 2 January 2019 to 26 April 2019, Hang Seng Index was on an upward trend and reached the day closing at 30,082 points while the closing price of the Shares dropped from HK$4.09 on 2 January 2019 to HK$3.77 on 26 April 2019.

The Share performance at the beginning of our review period was traded by investors with reference to, among other things, the interim results of the Group for the six months ended 31 August 2018, the then latest financial performance reference of the Group, being a profit for the period of approximately HK$113.4 million.

From 29 April 2019 to 18 December 2019, Hang Seng Index had day closing fluctuated between 25,281 points and 29,363 points, while the closing Share price continued to drop from HK$3.95 to HK$1.74. During the period, the Company issued a profit warning announcement on 21 August 2019 relating to the anticipated loss incurred in 1H FY 19/20 caused by various geopolitical and macroeconomic challenges such as the Sino-US trade tensions and the social instability in Hong Kong, which the Group offered extra discounts to increase sales and reduce inventory leading to a decline in gross profit margin and earnings in several operating regions such as Hong Kong and PRC.

Since 17 January 2020 and up to the Last Trading Date, the Hang Seng Index had day closing fluctuated between 21,696 points and 27,960 points. The Hang Seng Index reached the lowest closing point of the year on 17 March 2020 and day closing constantly below 27,701 points, being the one-year average prior to the outbreak of COVID-19 with the first Hong Kong confirmed case on 23 January 2020. Notwithstanding the increasing trend of the Hang Seng Index starting from the second quarter of 2020, the Share price continued to drop and reached a closing price of HK$0.96 on 8 September 2020 and remained sluggish compared to the Hang Seng Index for the rest of 2020 until the Last Trading Date.

We note that the Share price was on an upward trend prior to the Last Trading Date and with closing price fluctuated between HK$1.12 on 28 October 2020 (being the first trading day after the issue of the profit warning announcement on 27 October 2020) and HK$1.94 on 30 November 2020 (being the Last Trading Date), represented an increase of approximately 73.2%. The Share price outperformed the market trend whereby the Hang Seng Index with day closing fluctuated between 24,107 points and 26,895 points during the same period, represented an increase of approximately 11.6%. During the period, the Company did not issue any announcement. As advised by the management of the Group, the Company cannot ascertain the reason for such increase in Share prices that outperformed the Hang Seng Index against the backdrop of deterioration of financial performance.

The Share price closed at HK$1.94 on the Last Trading Date and further surged by approximately 44.8% to HK$2.81 on 7 December 2020, being the first trading day following the Joint Announcement.

We note that the Shares were traded below the Cancellation Price of HK$3 for over 16 months from 25 July 2019 to the Last Trading Date. During the period, the Shares were traded between closing prices of HK$0.96 and HK$2.93, with an average closing price of approximately HK$1.60, representing a discount of approximately 87.5% to the Cancellation Price. We note that the Group issued six profit warning announcements during the period. As such, we believe that the Share price performance was largely affected by the adverse changes in financial performance of the Group, details of which are set out above in the section headed “2. Financial information of the Group”.

From 7 December 2020 to the Latest Practicable Date, the Shares were traded between closing prices of HK$2.73 and HK$2.89, with an average of closing price of approximately HK$2.80, representing a discount of approximately 6.7% to the Cancellation Price. The Shares closed at HK$2.79 as at the Latest Practicable Date.

Overall comments

The Share performance at the beginning of our review period was traded by investors with reference to, among other things, the interim results of the Group for the six months ended 31 August 2018, the then latest financial performance reference of the Group, being a profit for the period of approximately HK$113.4 million.

Overall there was a downward trend of the Share price from 18 January 2019 until late October 2020 whereby the Share price dropped significantly during the said period with closing price from approximately HK$4.28 on 18 January 2019 as the highest to HK$0.96 as the lowest on 10 August 2020 during the said period.

We note that the Group issued six profit warning announcements during the period under review. As such, we believe that the Share price performance was largely affected by the adverse changes in financial performance of the Group. Despite the issue of the profit warning announcement on 27 October 2020, the Share price was on an upward trend and surged by approximately 73.2% from 28 October 2020 to the Last Trading Date, being 30 November 2020. As advised by the management of the Group, the Company cannot ascertain the reason for such increase in Share prices.

We consider the further surge in Share prices after the issue of the Joint Announcement was primarily driven by the announcement of the Proposal, in particular, the Cancellation Price of HK$3 per Scheme Share. The Scheme Shareholders should note that the prevailing Share prices may not be sustained if the Scheme is not approved or the Proposal otherwise lapses.

(c) Comparable companies analysis

In assessing the fairness and reasonableness of the Cancellation Price, we have identified companies listed on the main board of the Stock Exchange which (i) derived over 50% of their revenue from sales of apparel; (ii) derived over 50% of their revenue from PRC and/or Hong Kong in their respective latest financial years; (iii) had a market capitalisation of up to HK$5 billion on the Last Trading Date; and (iv) no change in controlling shareholder in the most recent financial year as the share prices may be distorted due to market perception as a result of change in controlling shareholder. We have identified 10 companies which are considered to be comparable companies (the "**Comparable Companies**"). These Comparable Companies represent an exhaustive list of comparable companies satisfying the above selection criteria.

We have considered commonly-used benchmarks in valuing a business. As the Group was loss-making based on the latest published results, price to earnings ratio is not applicable. We consider that enterprise value to earnings before interest, tax, depreciation and amortisation ("**EBITDA**") multiple ("**EV/EBITDA**") is an appropriate benchmark for valuing the Company. As the value of the Group depends on it earnings and operating performance but not its asset base, a price to book value ratio is not considered to be an appropriate valuation benchmark.

The table below illustrates the EV/EBITDA Ratio of the Comparable Companies based on their respective financial information as derived from their respective latest published financial statements and the closing share prices of the Comparable Companies on the Last Trading Date.

Company	**Stock code**	**Market capitalisation as at the Last Trading Date**	**EV/EBITDA**
			(Note 1)
		(HK$ million)	*(times)*
JNBY Design Limited	3306	4,596	4.5
Mulsanne Group Holding Limited	1817	3,886	14.8
Giordano International Limited	709	1,862	2.1
Cabbeen Fashion Limited	2030	1,852	5.6
Goldlion Holdings Limited	533	1,532	3.2
ENM Holdings Limited	128	1,073	*(Note 2)*
Forward Fashion (International) Holdings Company Limited	2528	496	3.1
Trinity Limited	891	360	0.2
Bauhaus International (Holdings) Limited	483	215	1.8
Moiselle International Holdings Limited	130	81	0.8
		Maximum	**14.8**
		Minimum	**0.2**
		Average	**4.0**
		Median	**3.1**
The Company		**3,587**	**5.1**
		(Note 3)	*(Note 3)*

Source: Bloomberg

Notes:

1. EV represents the market capitalisation as at the Last Trading Date plus total interest-bearing liabilities and total lease liabilities less cash and cash equivalents of the respective Comparable Companies based on their respective latest published financial statement; EBITDA represents trailing 12 months EBITDA and adjusted by the impairment of goodwill, right-of-use assets and property, plant and equipment.
2. Not applicable as loss before interests, taxes, depreciation and amortisation
3. Based on the Cancellation price of HK$3.

Despite the scale of operations, geographical mix of markets or prospects may not be the same or even different from the Group, we consider that the Comparable Companies are representative and appropriate for comparison purpose as they are all fashion retailers and their major markets are in PRC and/or Hong Kong.

The EV/EBITDA ratio for the Company as implied by the Cancellation Price was 5.1 times, which was higher than the average and median of the EV/EBITDA of the Comparable Companies of 4.0 times and 3.1 times respectively.

(d) Privatisation precedents

The table below shows a comparison of the Proposal to successful privatisation proposals of companies engaging in the retail sector listed on the main board of the Stock Exchange announced since 1 January 2018 up to the Last Trading Date (the "**Successful Privatisation Precedents**"), which represents an exhaustive list of privatisation proposals based on the aforesaid criteria. The table sets out the premiums of cancellation price over the relevant last trading date, 5 day, 30 day, 60 day, 90 day and 180 day periods' average share prices (up to and including the last trading days), which illustrate the ranges of premium over the prevailing share prices of the Successful Privatisation Precedents that were considered acceptable by their shareholders. We consider that the Successful Privatisation Precedents are the relevant companies to the Proposal given that they operate in the same sector.

					Premium of cancellation price over closing price/average closing price prior to the privatisation proposal					
Date of announcement	**Company**	**Stock code**	**Market capitalisation as at the Last Trading Date** *(HK$ million)*	**Principal business**	**Last trading day**	**Last 5 trading days**	**Last 30 trading days**	**Last 60 trading days**	**Last 90 trading days**	**Last 180 trading days**
Apparel retailers										
12-Dec-19	Joyce Boutique Group Limited	647	237	Fashion retail, brand management and distribution	91.8%	91.3%	82.2%	62.7%	50.1%	32.2%
07-Jun-18	Portico International Holdings Limited	589	1,513	Design, manufacturing and retail of ladies' and men's fashion garments	50.2%	51.6%	49.2%	45.2%	45.8%	49.9%
Other retailers										
01-Nov-19	Springland International Holdings Limited	1700	2,778	Operation of a chain of hypermarkets	63.1%	67.9%	56.8%	55.4%	53.2%	48.6%
18-Jun-19	C.P. Lotus Corporation	121	2,232	Operation of department stores and supermarkets	10.0%	12.0%	29.4%	30.3%	26.5%	21.9%
The Successful Privatisation Precedents				**Maximum**	**91.8%**	**91.3%**	**82.2%**	**62.7%**	**53.2%**	**49.9%**
				Minimum	**10.0%**	**12.0%**	**29.4%**	**30.3%**	**26.5%**	**21.9%**
				Average	**53.8%**	**55.7%**	**54.4%**	**48.4%**	**43.9%**	**38.2%**
				Median	**56.7%**	**59.8%**	**53.0%**	**50.3%**	**47.9%**	**40.4%**
The Proposal					**54.6%**	**84.7%**	**135.5%**	**162.4%**	**173.0%**	**156.7%**

Source: Bloomberg and website of the Stock Exchange

As the Group is a fashion retailer and the Group's value is not based on its asset base, the comparison of the premium of the Cancellation Price over the Group's unaudited consolidated net asset value attributable to Shareholders per Share as at 31 August 2020 of approximately 73.1% with the premium/discount of cancellation price over/to the net asset value of the respective Successful Privatisation Precedents is not considered to be appropriate.

The premium as represented by the Cancellation Price was approximately 84.7% over the average closing price of the Shares for the period of five trading days up to and including the Last Trading Date, which was within the range and higher than the median of approximately 59.8% of those of the Successful Privatisation Precedents. It is noted that the Share price was on an upward trend and there was a surge in mid-November 2021 prior to the Last Trading Date. As advised by the management of the Group, the Company cannot ascertain the reason for such increase in Share prices that outperformed the Hang Seng Index against the backdrop of the deterioration of the Group's financial performance. Please refer to the sub-section headed "7. Evaluation of the Cancellation Price (b) Analysis of historical Share price performance" for more details.

The premiums as represented by the Cancellation Price were approximately 135.5%, 162.4%, 173.0% and 156.7%, over the average closing prices of the Shares for the periods of 30, 60, 90 and 180 trading days up to and including the Last Trading Date, respectively, which were higher than the respective maximum premium of those of the Successful Privatisation Precedents.

Overall comments

After considering the following factors:

(a) the closing prices of the Shares were below the Cancellation Price for over 16 consecutive months from 25 July 2019 to the Last Trading Date;

(b) the EV/EBITDA ratio of the Company as implied by the Cancellation Price was approximately 5.1 times, which was higher than the average and median of the EV/EBITDA ratio of the Comparable Companies on the Last Trading Date of approximately 4.0 times and 3.1 times respectively; and

(c) The premium as represented by the Cancellation Price was approximately 84.7% over the average closing price of the Shares for the five trading days up to and including the Last Trading Date, which was within the range and higher than the average of approximately 55.7% and median of approximately 59.8% of those of the Successful Privatisation Precedents. The premiums as represented by the Cancellation Price were approximately 135.5%, 162.4%, 173.0% and 156.7% over the average closing prices of the Shares for the periods of 30, 60, 90 and 180 trading days up to and including the Last Trading Date, respectively, which were more than the respective maximum premium of those of the Successful Privatisation Precedents,

we consider that the Cancellation Price is fair and reasonable.

8. The Offeror's intention regarding the Group

As explained in the Explanatory Statement in Part VII of the Scheme Document, the Joint Offerors and the Offeror plan to implement the Restructuring and contribute financial and operational resources to the Group in order to reinvigorate growth over a long period through online infrastructure expansion, selective branding, implementing location strategies and exploring new business opportunities. Together with a shared ambition to uncover potential for the Brand Operations, a partnership between the Company and the CVC Network will provide the optimal structure and platform for both sides to unleash their respective strengths in realising the common objective to create long-term values for the Brand Operations while providing Founder Holdco leeway to take the necessary steps to revive the Other Operations.

As part of the Restructuring:

(a) the Offeror intends to separate (or procure that the alternative contractual arrangements are entered into to separate the economic benefits relating to) the employees, inventory, other tangible or fixed assets, lease agreements, other third party contracts, intellectual properties, information technology infrastructure, data, cash or receivables, debt or payables, and other assets and liabilities of the Group into two parts, being the Brand Operations and the Other Operations; and

(b) upon completion of the separation described in paragraph (a) above, the Offeror intends to continue to operate the existing business of the Brand Operations of the Group, while transferring the existing business of the Other Operations of the Group to the Founder Holdco as part of the Restructuring. The Brand Operations and the Other Operations may also enter into (i) transitional services agreements relating to logistics, e-commerce, office premises and IT systems or other areas where transitional services are required, and (ii) long-term agreements relating to trading between the Brand Operations and the Other Operations, including, consignment or similar agreements for the sale of the Brand Operations' products in the Other Operations' channels (or vice versa), facility services agreement for conference rooms, pantries and utilities in the PRC, and/or property and facility services for office premises in Taiwan, each conditional on and taking effect after the Effective Date. Transitional services agreements will be entered into for a period of six to twelve months with an early termination right by the relevant service recipient. Transitional services and long-term facility and property services will be charged by the relevant service provider on a monthly basis at actual costs of the services with no mark-ups. The pricing for other long-term services will be determined based on market price and arm's length commercial negotiation and on terms no more favorable than the terms available to and/or from any independent third-party service provider providing similar services in the relevant local market.

    The Offeror does not have any plan to make significant changes to the continued employment of the employees of the Group as a result of the implementation of the Proposal, except for staff movements which are part of the normal conduct of business and separation and redeployment of the Group's employees by the Brand Operations and the Other Operations upon which the Group's employees dedicated to the Brand Operations will continue to be employed by entities dedicated to the Brand Operations and the Group's employees dedicated to the Other Operations will continue to be employed by the Group's entities dedicated to the Other Operations.

As disclosed in the section headed "9. Joint Offeror Cooperation Agreement" below, shareholders of EquityCo (being the Joint Offerors) endeavour to procure that EquityCo consummates a qualified initial public offering (being a fully marketed public offering of EquityCo shares on the stock exchanges in Hong Kong, Tokyo, New York or other internationally reputable stock exchanges as the EquityCo shareholders may agree) or a trade sale (being the sale of EquityCo shares held by CVC Holdco to a third party buyer at an acceptable valuation to CVC Holdco) within approximately three to five years after the Effective Date, through which EquityCo shareholders (being the Joint Offerors) may exit from EquityCo. CVC Holdco has the right to decide (in any event no later than 12 years from the Effective Date), in its absolute discretion, as to whether and when to pursue a qualified initial public offering or a trade sale if CVC Holdco has not exited from EquityCo five years from the Effective Date. CVC Holdco has the right (but not the obligation) to exit ahead of other shareholders. In relation to the potential qualified initial public offering, as at the Latest Practicable Date, the shareholders of EquityCo had not agreed on any expected offer price or post-market valuation, or the method of listing.

As disclosed in the section headed "2. Financial Information of the Group" above, the recent operating and financial performance of the Group was adversely affected primarily by the COVID-19 pandemic with substantial decline in turnover and the Group turned from a net cash position as at 28 February 2019 to a net debt position as at 29 February 2020 and 31 August 2020, primarily due to the increase in total borrowings. As stated in the Trading Update, other than the slight YoY growth for PRC operations for the three months ended 30 November 2020, all operating segments recorded negative YoY same-store-sales-growth for the three months and nine months ended 30 November 2020, which was due to the severe impacts on the Group's sales performance brought by the COVID-19 situation with related restrictions in place and the decline in inbound tourism over the period. As disclosed in the section headed "4. Industry Overview and Outlook" above, the full recovery of the world's economy remains uncertain in the near term as the mutations of the coronavirus and the time required to inoculate the population to achieve herd immunity is uncertain. The COVID-19 pandemic is expected to continue to bring volatility and uncertainties to the economy and to the Group (including the Brand Operations and the Other Operations).

The Joint Offerors and the Offeror intend to implement the Restructuring and contribute financial and operational resources to the Group in order to reinvigorate growth over a long period through online infrastructure expansion, selective branding, implementing location strategies and exploring new business opportunities. It is noted that the Restructuring would allow the Brand Operations, which have significant Hong Kong retail exposure and are currently running at an operating loss and negative cash with better cash generative capabilities, to surface as a more feasible borrower to secure long-term financing subject to the Scheme becoming effective and the completion of the Restructuring owing to CVC Network's credibility, track record in business turnaround and long-term relationship with commercial banks, while preserving sufficient cash for the Other Operations to weather through the retail headwind for the purpose of seeking a potential turnaround in the future. The Founder Group's partnership with CVC Holdco, which is ultimately owned by CVC Funds, a leading global long-term strategic financial investor with strong track record in managing brand and retail companies and its extensive global network, will be valuable resources that is expected to be an important factor to the growth and value creation of the Brand Operations in facilitating the ultimate intention of the Offeror, if successful.

Having considered the aforesaid, we consider that the Group (including the Brand Operations and the Other Operations) with the support of CVC will be in a better position to cope with the challenging operating environment than on a standalone basis.

9. Joint Offeror Cooperation Arrangement

(a) Key terms of the Joint Offeror Cooperation Arrangement

As part of the Proposal, the relevant members of the Founder Group, CVC Holdco, EquityCo and/or the Offeror entered into the following Joint Offeror Cooperation Arrangement:

(i) Consortium Agreement;

(ii) Shareholders' Agreement; and

(iii) transactions in connection with the Restructuring (being the restructuring of the Group and the Offeror Group (as applicable) pursuant to: (a) the Framework Agreement (which terminated and superseded the Restructuring Term Sheet); (b) the implementing agreements relating to asset or share transfers, transitional or long-term services and alternative arrangements in relation to the Restructuring; and (c) the Refinancing Documents).

(i) Consortium Agreement

On 4 December 2020, Chairman, CCO (each in his personal capacity as a member of the Founder Group), and the Joint Offerors entered into the Consortium Agreement, pursuant to which the parties have agreed to conduct and implement the Proposal in consultation with one another and for EquityCo to have the shareholding structure as further described in the section headed "5. Information on the Offeror Group, the Founder Group and the CVC Network" above. The Consortium Agreement will be terminated if the Scheme is not approved or the Proposal otherwise lapses or is withdrawn.

(ii) Shareholders' Agreement

On 5 December 2020, Chairman, CCO (each in his personal capacity as a member of the Founder Group), the Joint Offerors and EquityCo entered into the Shareholders' Agreement in respect of the governance of the Offeror Group, which is intended to take full effect upon the Scheme becoming effective. On 19 March 2021, the same parties entered into a deed of amendment relating to the Shareholders' Agreement. Set out below are key terms of the Shareholders' Agreement (as amended by the deed of amendment):

- *Board composition*. Founder Holdco shall have the right to appoint three directors on the board of EquityCo, and CVC Holdco shall have the right to appoint two directors.
- *Voting rights*. Ordinary shares, class A preference shares and class B preference shares in EquityCo will have voting rights, and each share will carry one vote.
- *Dividend rights*. Each preference share will have a cumulative non-cash coupon at the rate of 10% per annum. No dividend on any ordinary share shall be declared unless the accrued interest on the preference shares is fully settled. EquityCo shall, as soon as practicable after the Effective Date and in any event prior to CVC Holdco's exit from EquityCo, declare and pay in cash to CVC Holdco (as a holder of class B preference shares), prior to and in preference to the dividend rights of any other EquityCo shareholder, an additional preferred dividend of up to HK$800 million (so long as the Offeror Group's balance sheet, debt financing terms and the applicable law permit such distribution (including through a dividend re-capitalisation)). There is no guarantee that such additional preferred dividend will be declared and paid in full, whereby EquityCo could borrow money to fund such preferred dividend payment together with any existing cash resources of the Offeror Group. While the timing of the declaration and payment of such additional preferred dividend to CVC Holdco through cash distribution is uncertain, in any event, CVC Holdco will be entitled to the economic benefits of such additional preferred dividend in its various exit scenarios.

- *Reserved matters*. EquityCo board will be responsible for the overall direction, supervision and management of the Offeror Group, subject to minority protection reserved matters over which CVC Holdco shall have a veto right. Such reserved matters include, among others, amendment of constitutional documents and share capital, liquidation and winding up of any company of the Offeror Group, approval of business plan and annual budget, appointment of auditors and senior management of the Offeror Group, change of business scope, any material borrowings, mergers, investments, acquisitions, disposals, granting of any material guarantees other than provided in the business plan, entering into or settling any material dispute, and entering into any material related party transactions.

- *Pre-emption rights*. Each shareholder shall have pre-emption rights to participate in any issuance of new shares by EquityCo.

- *Transfer restriction*. Other than with the prior written consent of CVC Holdco, Chairman, CCO (each in his personal capacity) and Founder Holdco shall not, subject to customary exceptions, transfer their or its EquityCo shares to third parties during the term of the Shareholders' Agreement.

- *Non-compete and non-solicit*. Founder Holdco, Chairman, CCO (each in his personal capacity) and their affiliates shall not, other than carrying on the Other Operations, compete with the Brand Operation, and shall not solicit the employment of the senior managers of the Offeror Group, subject to customary exceptions.

- *Liquidation preference*. In case of a liquidation event (including, with respect to the Offeror Group, any liquidation, share sale resulting in Founder Holdco losing control, or sale of all or substantially all of the assets), ahead of holders of other classes of shares, holders of class B preference shares shall be entitled to (i) participate in such liquidation event, or (ii) be paid by EquityCo, in respect of holders of class B preference shares, an amount no less than the sum of its investment amount and all accrued and unpaid dividend (including the HK$800 million of preferred dividend).

- *Conversion rights*. Each preference share of EquityCo shall be automatically converted into ordinary shares immediately prior to the consummation of any initial public offering of EquityCo based on a conversion formula which, with respect to CVC Holdco as a holder of class B preference shares, factors in the sum of CVC Holdco's initial investment amount and all accrued and unpaid dividends entitled to be received by CVC Holdco (including the HK$800 million of preferred dividend) towards CVC Holdco's entitlement under its conversion right.

- *Exit*. Shareholders of EquityCo endeavour to procure that EquityCo shall consummate a qualified initial public offering (being a fully marketed public offering of EquityCo shares on the stock exchanges in Hong Kong, Tokyo, New York or other internationally reputable stock exchanges as the EquityCo shareholders may agree) or a trade sale in approximately three to five years after the Effective Date, through which shareholders may exit from EquityCo. CVC Holdco has the right (but not the obligation) to exit ahead of other shareholders. CVC Holdco has the right to, in its absolute discretion, decide whether and when to pursue a qualified initial public offering or a trade sale if CVC Holdco has not exited from EquityCo five years from the Effective Date. In relation to the potential qualified initial public offering, as at the Latest Practicable Date, the shareholders of EquityCo had not agreed on any expected offer price or post-market valuation, or the method of listing.

- *Share adjustment*. If the net money-on-money return achieved by CVC Holdco through its future exits from EquityCo (calculated based on CVC Holdco's net return amount and investment amount) is in the range from 3.2 times to 3.5 times, up to approximately 13% of EquityCo shares (which were initially issued and credited to CVC Holdco as fully paid at the direction of Founder Holdco around the time of the Joint Announcement and the Effective Date respectively, and, as at the Effective Date, amounts to approximately HK$465 million economic value and the future value of which at the time of CVC Holdco's future exits may change and is uncertain as at the Latest Practicable Date) will be proportionally returned to Founder Holdco for nil consideration upon CVC Holdco's future exits from EquityCo in accordance with a gradual scale. There is no certainty as to CVC Holdco's future exit return nor any guarantee that such share adjustment will eventually take place.

- *Preferred dividend sharing*. After taking into account the share adjustment as described above, if the net money-on-money return achieved by CVC Holdco upon its future exits from EquityCo is greater than 3.5 times, CVC Holdco will share with Founder Holdco up to 63.5% of its preferred dividend actually received by CVC Holdco from EquityCo (to the extent that CVC Holdco's net money-on-money return remains above 3.5 times). There is no certainty as to CVC Holdco's future exit return nor any guarantee that such preferred dividend sharing will eventually take place.

- *Additional upside sharing*. After taking into account the share adjustment and the preferred dividend sharing as described above, if the net money-on-money return achieved by CVC Holdco through its future exits from EquityCo still exceeds 3.5 times, CVC Holdco will share with Founder Holdco an additional cash amount equal to approximately 15% of CVC Holdco's net return that is in excess of 3.5 times. There is no certainty as to CVC Holdco's future exit return nor any guarantee that such additional upside sharing will eventually take place.

- *Termination*. The Shareholders' Agreement shall terminate (i) by the parties' written agreement, (ii) with respect to a shareholder, if that shareholder holds less than 10% EquityCo shares, (iii) upon a qualified initial public offering, and (iv) upon all EquityCo shares being held by one person.

(iii) Transactions in connection with the Restructuring (being the restructuring of the Group and the Offeror Group (as applicable) pursuant to: (a) the Framework Agreement (which terminated and superseded the Restructuring Term Sheet); (b) the implementing agreements relating to asset or share transfers, transitional or long-term services and alternative arrangements in relation to the Restructuring; and (c) the Refinancing Documents)

On 5 December 2020, Chairman, CCO (each in his personal capacity as a member of the Founder Group), the Joint Offerors and EquityCo entered into a legally binding Restructuring Term Sheet. In accordance with the Restructuring Term Sheet, on 30 January 2021, Chairman, CCO (each in his personal capacity as a member of the Founder Group), the Joint Offerors and EquityCo entered into the Framework Agreement, which terminated and superseded the Restructuring Term Sheet. The Framework Agreement is the governing and guiding document for the Restructuring transactions. It reflects the principles and key terms of the Restructuring Term Sheet, and includes more detailed implementing provisions to effect the key terms agreed in the Restructuring Term Sheet. Pursuant to the Framework Agreement, the parties have agreed to:

(a) procure the implementation of the Restructuring, the process of which commenced promptly after the date of the Joint Announcement and is intended to be substantially completed within a short period of time after the Effective Date;

(b) procure the establishment of new Group entities dedicated for the Brand Operations which are required to effect the Restructuring;

(c) procure that necessary intra-group legally binding intra-group documents, implementing asset and share transfers conditional on and taking effect after the Effective Date (unless otherwise agreed between the parties), are entered into as soon as practicable after the new Group entities described in paragraph (b) above are set up, in order to separate the Group's co-mingled Brand Operations and the Other Operations by intra-group separation and transfers of the Brand Operations' identified employees, inventory, other tangible and fixed assets, lease agreements, other third party contracts, intellectual properties, information technology infrastructure, data and cash from the co-mingled Group entities to selected or newly established Group entities dedicated to the Brand Operations. In this regard, the following types of agreement will be entered into:

(i) intra-group asset transfer agreement, an agreed form template of which has been attached to the Framework Agreement, which will be used for the transfer of an agreed list of identified assets of the Brand Operations including inventories, stores, and other fixed assets and includes customary provisions relating to completion mechanism, liability apportionment, and further assurance obligations on the same terms and principles as set out in the Framework Agreement;

(ii) intra-group share transfer agreement, an agreed form template of which has been attached to the Framework Agreement, which will be used for the transfer of shares in four Group entities dedicated for the Brand Operations and includes customary provisions relating to completion mechanism, and fundamental warranties on title and capacity to be given by the transferor to the relevant transferee;

(iii) intra-group intellectual property assignment deed, an agreed form template of which has been attached to the Framework Agreement, which will be used for the transfer and assignment of an agreed list of identified intellectual property rights of the Brand Operations (including trade-marks, registered designs, registered copyright and domain names) and includes customary provisions relating to the assignment of ancillary rights (such as rights to apply for or defend the trademarks), warranties relating to title, no encumbrances and non-infringement of third party rights, undertakings, and indemnities to be given by the relevant transferor to the relevant transferee and further assurance obligations;

(iv) intra-group transfer of an agreed lists of employees from the Other Operations to the Brand Operations on substantially the same terms as they are currently employed; and

(v) the intra-group transfer (by novation, split or renegotiation) of an agreed list of commercial contracts and leases from the Other Operations to the Brand Operations on substantially the same terms as their current terms.

Pursuant to the Framework Agreement, the parties agreed that upon the completion of the Restructuring: (i) the Brand Operations will be allocated with sufficient cash of the Group to support its operations (being HK$126 million as at the end of March 2021 and additional cash generated or received by the Brand Operations afterwards); (ii) the Other Operations will be allocated with the remaining cash of the Group other than those allocated to the Brand Operations (capped at HK$1.3 billion immediately upon completion of the Restructuring); and (iii) the Refinancing Proceeds (being up to HK$1.8 billion) to be borrowed by the entities dedicated to the Brand Operations pursuant to the Refinancing Documents (together with the cash reserves of the Group and proceeds of an interest-free shareholders' loan which may be provided by CVC Holdco to the Offeror Group and be allocated to the Other Operations) pursuant to the Framework Agreement will be passed on to the Other Operations (as consideration for transfer of Brand Operations' assets, shares and intellectual properties as further described in the paragraph immediately below) to repay and discharge all the existing borrowings of the Group (being approximately HK$2 billion as at 31 October 2020 and approximately HK$1.8 billion as at 31 January 2021) so that the Other Operations would have no external debt. For the valuation of the Other Operations, further details of which are set out in Appendix II to the Scheme Document, the Valuer has taken into account the cash and cash equivalents of HK$1.3 billion and nil interest bearing debt of the Other Operations immediately upon completion of the Restructuring after allocating the cash of the Group and Refinancing Proceeds pursuant to the above arrangement under the Framework Agreement in arriving at its valuation of the 49.35% equity interest in the Other Operations.

In connection with the debt refinancing arrangement pursuant to the Framework Agreement, the parties agreed that the total amount of consideration, payable by the entities dedicated to the Brand Operations to the entities dedicated to the Other Operations, for the intra-group transfers of the assets, shares and intellectual properties of the Brand Operations pursuant to the Framework Agreement as described in this paragraph (c) will be the total amount of the Refinancing Proceeds (being up to HK$1.8 billion).

After implementing the asset and share transfers, cash allocation and debt refinancing steps pursuant to the Framework Agreement as described in this paragraph (c):

(i) entities dedicated to the Brand Operations will use the Refinancing Proceeds to purchase the assets, shares and intellectual properties of the Brand Operations pursuant to the Framework Agreement, to complete the separation of the Brand Operations and the Other Operations;

(ii) entities dedicated to the Other Operations will use the Refinancing Proceeds received from the Brand Operations (together with the cash reserves of the Group and an interest-free shareholders' loan which may be provided by CVC Holdco to the Offeror Group pursuant to the Framework Agreement for up to HK$126 million plus applicable costs relating to the Refinancing Documents and be allocated to the Other Operations) to repay the Group's external bank debt borrowed by the entities dedicated to the Other Operations (being approximately HK$2 billion as at 31 October 2020 and approximately HK$1.8 billion as at 31 January 2021) and associated costs;

(iii) the transactions under steps (i) and (ii) above will happen simultaneously; and

(iv) after allocating all cash and Refinancing Proceeds of the Group pursuant to the Framework Agreement, immediately upon completion of the Restructuring, the Other Operations will have remaining cash of the Group other than those allocated to the Brand Operations capped at HK$1.3 billion, and no external bank debt.

If it is not possible for any particular asset or contract transfer to be completed within a short period of time after the Effective Date (for reasons such as restrictions under applicable laws or failure to receive any third-party consent), then transitional alternative contractual arrangements, conditional on and taking effect after the Effective Date, shall be put in place, such that the Brand Operations may enjoy the equivalent arrangements relating to the relevant assets or contracts before or after completion of the Restructuring, pending transfers of the relevant asset or contract on the terms as disclosed in this paragraph (c). Parties will minimise as much as possible the need to enter into any alternative arrangement, which serves as fallback arrangements where the intended transfers pursuant to the Framework Agreement cannot be completed in time. The alternative arrangements will be implemented based on or consistent with the material terms of the relevant transfers as disclosed in this paragraph (c) or material terms of the transitional services agreements as disclosed in paragraph (d) immediately below; and

(d) procure that the Brand Operations and the Other Operations enter into:

(i) transitional services agreements, key terms of which are summarised as follows:

Service scope/subject matter	provision of services by the Other Operations to the Brand Operations relating to IT (including e-commerce), logistics, design support, administration and operations support and facilities services and other areas where transitional services are required;
Tenure	a period of six to twelve months with an early termination right by the relevant service recipient;
Service levels	on equivalent service standards as provided to the services recipient as during the twelve month period prior to completion of the Restructuring; and
Pricing/pricing policy	charged by the relevant service provider on a monthly basis at actual costs of the services with no mark-up.

(ii) long-term services agreements, key terms of which are summarised as follows:

Service scope/subject matter	long-term trading arrangement between the Brand Operations and the Other Operations, being (i) consignment or similar agreements for the sale of the Brand Operations products (i.e. fashion apparel and accessories bearing the trademarks of Brand Operation) in the online and offline multi-branded channels of the Other Operations (or vice versa), (ii) facility services agreement for provision of services by the Other Operations to the Brand Operations relating to conference rooms, pantries and utilities in PRC; and/or (iii) property and facility services for provision of services by the Other Operations to the Brand Operations relating to office premises in Taiwan to be provided by the Other Operations to the Brand Operations;
Tenure	the facility and property services will be provided for the duration of the relevant lease, with an early termination right by the relevant service recipient. The duration for other long-term services will depend on future business needs;
Service levels	on equivalent service standards as provided to the services recipient as during the twelve month period prior to completion of the Restructuring for the facility and property services. The service levels for other long-term services will depend on future business needs; and
Pricing/pricing policy	the facility and property services will be charged by the relevant service provider on a monthly basis at actual costs of the services with no mark-up. The pricing for other long-term services will be determined based on market price and arm's length commercial negotiations, and on terms no more favorable than the terms available to and/or from any independent third-party service provider providing similar services in the relevant local market. Each time when a long-term agreement is entered into, the service recipient will compare the rate offered by the Brand Operations or the Other Operations (as the case may be) with the market rates charged by other independent third-party service providers in the relevant local market, and the prices to be charged by the Brand Operations or the Other Operations (as the case may be) under any long-term services will be within the range of the market rate charged by other independent third-party service providers in the relevant local market.

As at the Latest Practicable Date, the new Group entities and each of their branches dedicated to the Brand Operations required to effect the Restructuring are in the process of being set up and such new Group entities and their branches will be substantially set up by the end of April 2021 (subject to potential delays in certain locations). As at the Latest Practicable Date, whilst communications relating to the Restructuring are being carried out within the Group and with the Brand Operations' third-party contract counterparties, other than the Restructuring Term Sheet and the Framework Agreement (which terminated and superseded the Restructuring Term Sheet), no definitive implementing documents to implement and effect the transfers of Brand Operations' asset and shares, any alternative arrangement, the transitional or long-term services arrangements pursuant to the Framework Agreement had been signed. It is anticipated that such definitive implementing documents may be signed before, on or within a short period after the Effective Date pursuant to and in accordance with the terms of the Framework Agreement.

There will be no change in the material terms of the Framework Agreement or the material terms of such definitive implementing documents relating to the Restructuring between the Latest Practicable Date and the completion of the Restructuring. Pursuant to the Framework Agreement, to the extent that any definitive documents implementing the intra-group transfers of the assets and shares of the Brand Operations are signed before the Effective Date, such definitive agreements will be conditional upon and will only take effect after the Effective Date (unless otherwise agreed between the parties). Pursuant to the Implementation Agreement and the Consortium Agreement, any costs incurred relating to the Restructuring (together with any costs incurred relating to the Scheme and the other parts of the Joint Offeror Cooperation Arrangement) will be borne by the Offeror and ultimately be shared by the Joint Offerors, regardless of whether the Scheme becomes effective, lapses or is withdrawn.

Furthermore, under the Framework Agreement:

(a) the Founder Group members have warranted to CVC Holdco that: (i) they have the requisite power and authority to enter into and perform the binding obligations under the Framework Agreement and the related implementing documents; and (ii) assets or shares of the Brand Operations being transferred pursuant to the Framework Agreement are validly owned by the relevant transferor without encumbrance, and are sufficient for the operation of the Brand Operations; and

(b) the parties have agreed that, with respect to liabilities incurred in connection with the relevant Brand Operations' assets being transferred pursuant to the Framework Agreement, the transferor shall be responsible, and shall indemnify the transferee, for the liabilities incurred before and up to the date of the relevant transfer, and the transferee shall be responsible, and shall indemnify the transferor, for the liabilities incurred after the date of the relevant transfer.

After the Scheme becomes effective, CVC Holdco will have a 49.35% indirect interest in the Other Operations (as part of the Offeror Group). After the Brand Operations and the Other Operations are effectively separated after the Effective Date, under the Framework Agreement, CVC Holdco has agreed to transfer or procure the transfer of its 49.35% indirect interest in the Other Operations to Founder Holdco in accordance with the steps set out in the Framework Agreement, the key transaction steps being (i) the transfer by the Company of all of its shares in the holding company of the Other Operations to Founder Holdco in consideration for the issue by Founder Holdco of a promissory note for the amount of HK$10 million by Founder Holdco to the Company (together with other quantifiable and non-quantifiable consideration as set out in the sub-section headed "Consideration for transferring CVC Holdco's 49.35% indirect interest in the Other Operations to Founder Holdco" below); (ii) the distribution or assignment of such promissory note from the Company to the Offeror and then to EquityCo; and (iii) the buy-back by EquityCo from Founder Holdco of EquityCo shares representing HK$10 million of EquityCo's share capital, payable by setting off against the promissory note of HK$10 million owed by Founder Holdco to EquityCo.

EquityCo's share capital structure as at the Latest Practicable Date is set out below. EquityCo's share capital structure as at the Latest Practicable Date will remain unchanged as at the Effective Date and immediately prior to the completion of the Restructuring.

	Number of Ordinary Shares	Number of Class A Preference Shares	Number of Class B Preference Shares	Amount of the total share capital (HK$)	% of the total share capital
Founder Holdco	5,015,008	1,811,864,043	0	1,816,879,051	50.65%
CVC Holdco	5,012,945	0	1,765,499,925	1,770,512,870	49.35%
Total	10,027,953	1,811,864,043	1,765,499,925	3,587,391,921	100.00%

The Restructuring steps for transfer of the CVC Holdco's 49.35% indirect interest in the Other Operations to Founder Holdco will reduce EquityCo's total share capital and EquityCo's share capital attributable to Founder Holdco by HK$10 million respectively. Accordingly, immediately upon completion of these Restructuring steps, EquityCo's share capital structure will be as follows:

	Number of Ordinary Shares	Number of Class A Preference Shares	Number of Class B Preference Shares	Amount of the total share capital (HK$)	% of the total share capital
Founder Holdco	4,987,055	1,801,891,996	0	1,806,879,051	50.51%
CVC Holdco	5,012,945	0	1,765,499,925	1,770,512,870	49.49%
Total	10,000,000	1,801,891,996	1,765,499,925	3,577,391,921	100.00%

Consideration for transferring CVC Holdco's 49.35% indirect interest in the Other Operations to Founder Holdco

Having taken into account the Other Operations' financial condition, lease liabilities and other cash requirements for operating and reviving its business, the consideration for the transfer of CVC Holdco's 49.35% indirect interest in the Other Operations to Founder Holdco includes, amongst others, the following:

(a) By directing the EquityCo to directly issue and credit as fully paid approximately 13% EquityCo shares to CVC Holdco around the time of the Joint Announcement and at the Effective Date, respectively, Founder Holdco is deemed to have been passed to CVC Holdco an economic value of approximately HK$465 million (as shown in the calculation set out in the sub-section headed "(b) Implied valuation of the Other Operations" under the section headed "(ii) The Asset Transaction" below on page 62 (being equivalent to approximately 13% of EquityCo's total share capital of approximately HK$3,587,391,921 as at the Effective Date).

Under the Proposal, the Shares of the Founder Group will be rolled over after the has Proposal has become effective but not the shares of the Non-Scheme Shareholders. Even if the shares of EquityCo were not offered to the Non-Founder Scheme Shareholders in lieu of cash for cancellation of their Shares, the terms of the Joint Offeror Cooperation Arrangement are still considered to be fair and reasonable after considering the following factors: (i) their interests in EquityCo as shareholders of a private company would not be subject to the corporate governance and minority protection provisions as stipulated under the Listing Rules such as shareholder approval for certain notifiable transactions, connected transactions and anti-dilution rights which creates corporate governance problems on shareholders of a private company like financial frauds, tunneling and dilution of shares; (ii) as the Non-Scheme Shareholders are minority shareholders, the decision to vote for or against future business decisions would be impaired or has no casting effect and not influential to the final decision of EquityCo; (iii) they would face liquidity risk of the EquityCo shares as they are unlikely to be able to perform a sale of their minority stakes in unlisted shares due to the lack of an open market; (iv) although there are future exit opportunities of EquityCo by going public, there is no guarantee whether, when and how an initial public offering may be effected within the next 12 years from the Effective Date and the pricing of the EquityCo shares is uncertain; (v) the potential benefits that Non-Scheme Shareholders as minority shareholders of EquityCo could receive such as dividend payout and increase in equity value are also uncertain; (vi) as a private company, the transfer of the EquityCo shares is subject to restrictions as the articles of association of EquityCo stipulate that any transfer of the EquityCo Shares shall be subject to consent of the directors, which may be withheld for any or no reason; and (vii) unlike the Non-Founder Scheme Shareholders, the Chairman and the COO (each in his personal capacity) have extensive experience and expertise in the business operations of the Group and in-depth understanding of the Group's businesses as members of the core management of the Company. Therefore, we believe the Founder Group is in a unique position with ability to take on the future risks in the operations of the Group in the face of market challenges and to formulate and implement strategies to contribute to the future development of the Group.

As at the Latest Practicable Date, the Founder Scheme Shares represent approximately 63.61% of the total Shares. Pursuant to the terms of the Proposal, in consideration of cancelling the Founder Scheme Shares (representing approximately 63.61% of the total Shares), Founder Holdco will only receive approximately 50.65% EquityCo shares as part of the Founder Cancellation Consideration. The economic value of the remaining approximately 13% EquityCo shares (equivalent to approximately HK$465 million in economic value as at the Effective Date) is deemed to have been passed to CVC Holdco as at the Effective Date as part of the Joint Offeror Cooperation Arrangement and as part of the consideration for the disposal of CVC Holdco's 49.35% indirect interests in the Other Operations to Founder Holdco.

Pursuant to the terms of the Shareholders' Agreement, all or part of such 13% EquityCo shares issued to CVC Holdco at the direction of Founder Holdco are subject to potential adjustment and may be transferred to Founder Holdco for nil consideration upon CVC Holdco's future exits from EquityCo through a qualified initial public offering or a trade sale years after the Effective Date as part of the incentivisation arrangement offered by CVC Holdco to the Founder Group who will continue to retain management control over the Brand Operations, contribute its expertise and skills and drive the future value creation of the Offeror Group (consisting of the Brand Operations only after completion of the Restructuring) under the Joint Offeror Cooperation Arrangement. Under the Shareholders' Agreement, CVC Holdco will only transfer all or some of such 13% EquityCo shares it holds to Founder Holdco based on a gradual scale (with the percentage of share adjustment corresponding to the net return achieved by CVC Holdco through its future exits) as set out in the Shareholders' Agreement in the event that the net money-on-money return achieved by CVC Holdco through its future exits from EquityCo is from 3.2 times to 3.5 times. In the event that the net money-on-money return achieved by CVC Holdco through its future exits from EquityCo is below 3.2 times, no EquityCo shares will be transferred to Founder Holdco under the share adjustment arrangement. There is no certainty as to whether, when or how CVC Holdco will exit from EquityCo, future return that can be achieved by CVC Holdco through its future exits, the value of the 13% EquityCo shares at the time of CVC Holdco's future exists, nor any guarantee that any such share adjustment will actually take place;

(b) by agreeing that CVC Holdco's class B preference shares in EquityCo will have a right to HK$800 million of preferred dividend (and the conversion rights and liquidation preference which will factor in CVC Holdco's entitlement to any unpaid HK$800 million of preferred dividend), Founder Holdco is deemed to have given up and passed to CVC Holdco up to approximately HK$405 million of economic value (being the right to the pro rata dividend in EquityCo that Founder Holdco has given up and passed to CVC Holdco). Pursuant to the terms of the Shareholders' Agreement and as further elaborated in the paragraphs immediately below, Founder Holdco is deemed to have given up and passed to CVC Holdco up to approximately HK$405 million in economic value by giving CVC Holdco (i) a right to receive HK$800 million of preferred dividend in cash as soon as practicable after the Effective Date and in any event prior to CVC Holdco's exit from EquityCo. Notwithstanding CVC Holdco's entitlement and EquityCo's contractual obligation to declare and pay CVC Holdco such HK$800 million of preferred dividend in cash prior to CVC Holdco's exit from EquityCo under the Shareholders' Agreement, the timing of the payment of the HK$800 million of preferred dividend to CVC Holdco through cash distribution is uncertain. However, CVC Holdco's right to such HK$800 million of preferred dividend is not subject to any expiry date before CVC Holdco's exit from EquityCo, and ranks prior to dividend rights of any other EquityCo shareholder; (ii) a conversion right which allows CVC Holdco to convert its class B preference shares in EquityCo into ordinary shares of EquityCo (which factors in the value equivalent to any unpaid HK$800 million of preferred dividend) at the time of an initial public offering of EquityCo (which may or may not happen), and (iii) a right to receive a lump sum payment (which includes value equivalent to any unpaid amount of the HK$800 million of preferred dividend) in case of a liquidation event (which may or may not happen, is subject to prior written consent or affirmative vote of CVC Holdco as holder of EquityCo class B preference shares as a reserved matter, and include any liquidation, winding-up or dissolution of the EquityCo, share sale resulting in Founder Holdco losing control, or sale of all or substantially all of the assets of EquityCo or any of its subsidiaries), CVC Holdco shall, from available proceeds, ahead of other EquityCo shareholders holding other classes of shares, be entitled to be paid by EquityCo an amount no less than the sum of CVC Holdco's initial investment amount and all accrued and unpaid dividend entitlements (including the HK$800 million of preferred dividend). Whether CVC Holdco can be paid with the full amount of the HK$800 million of preferred dividend in case of a liquidation event depends on the value of total assets and/or available proceeds of EquityCo upon a liquidation event. Shareholders and potential investors should be aware that if the Offeror Group becomes insolvent and is liquidated, wound up or dissolved without sufficient residual assets to settle any unpaid preferred dividend contractually entitled to be received by CVC Holdco, there is a possibility that CVC Holdco may enjoy economic benefits of less than HK$800 million in this respect.

Under the Shareholders' Agreement, CVC Holdco's right to such HK$800 million of preferred dividend (i) is a binding contractual obligation on EquityCo, Founder Holdco, Chairman, and CCO (each in his personal capacity as a member of the Founder Group), (ii) is not subject to any other approval or veto rights by any other EquityCo shareholders, Chairman or CCO, (iii) is not subject to any time limitation or expiry date before CVC Holdco exits from EquityCo, and (iv) ranks prior and in preference to dividend rights of any other EquityCo shareholder. EquityCo and each EquityCo shareholder are contractually obligated to do all things to procure and enable the cash distribution of the HK$800 million of preferred dividend to CVC Holdco. Such HK$800 million of preferred dividend shall be declared and paid to CVC Holdco as soon as practicable and in any event prior to CVC Holdco's exit from EquityCo so long as the Offeror Group's balance sheet, debt financing terms and applicable laws permit such distribution (which can be achieved through methods such as effecting a dividend re-capitalisation, whereby EquityCo could borrow money to fund such preferred dividend payment together with existing cash resources of the Offeror Group). There is no assurance that EquityCo will be able to borrow money to fund such preferred dividend and EquityCo may fund the preferred dividend payment through other methods such as using its own cash resources. The HK$800 million amount of the preferred dividend was reached as part of the commercial agreement between the Joint Offerors, factoring in what parties agreed was an appropriate value which forms one element of the overall consideration for transferring CVC Holdco's 49.35% indirect interest in the Other Operations to Founder Holdco.

Notwithstanding CVC Holdco's entitlement to the HK$800 million of preferred dividend and EquityCo's contractual obligation to declare and pay CVC Holdco such HK$800 million of preferred dividend in cash prior to CVC Holdco's exit from EquityCo under the Shareholders' Agreement, the timing for the full payment of the HK$800 million of preferred dividend to CVC Holdco through cash distribution is uncertain. However, to the extent any HK$800 million of preferred dividend is not fully paid to CVC Holdco through cash distribution, CVC Holdco can still enjoy the economic benefits of such HK$800 million of preferred dividend on the basis that, pursuant to the terms of the Shareholders' Agreement:

(i) CVC Holdco's right to the HK$800 million of preferred dividend is not subject to any time limitation or expiry date and CVC Holdco can demand EquityCo to declare and pay such HK$800 million of preferred dividend to CVC Holdco pursuant to the terms of the Shareholders' Agreement any time before CVC Holdco exits from EquityCo;

(ii) immediately prior to the consummation of any initial public offering of EquityCo, all EquityCo class B preference shares held by CVC Holdco shall be converted into ordinary shares of EquityCo based on a conversion formula which factors in the sum of CVC Holdco's initial investment amount and all accrued and unpaid dividend entitlements to be received by CVC Holdco (including the HK$800 million of preferred dividend) (as a consequence, Founder Holdco would be entitled to less, and CVC Holdco would be entitled to additional ordinary shares of EquityCo at the time of the initial public offering (equivalent to HK$800 million in value (or part thereof)) if the HK$800 million of preferred dividend had not been fully paid at the time). There is no assurance on whether CVC Holdco will exit from EquityCo through initial public offering or when any initial public offering can take place. However, in the event that CVC Holdco has not exited from EquityCo five years from the Effective Date, CVC Holdco has the right to decide (in any event no later than 12 years from the Effective Date), in its absolute discretion, whether and when EquityCo shall pursue a qualified initial public offering or a trade sale;

(iii) in the event there is a liquidation event (which may or may not happen and is subject to prior written consent or affirmative vote of CVC Holdco as holder of EquityCo class B preference shares as a reserved matter and include any liquidation, winding-up or dissolution of the EquityCo, as well as share sale resulting in Founder Holdco losing control, or sale of all or substantially all of the assets of EquityCo or any of its subsidiaries), CVC Holdco shall, from available proceeds, ahead of other EquityCo shareholders holding other classes of shares, be entitled to be paid by EquityCo an amount no less than the sum of CVC Holdco's initial investment amount and all accrued and unpaid dividend entitlements (including the HK$800 million of preferred dividend). Whether CVC Holdco can be paid with the full amount of the HK$800 million of preferred dividend in case of a liquidation event depends on the value of total assets and/or available proceeds of EquityCo upon a liquidation event. Shareholders and potential investors should be aware that if the Offeror Group becomes insolvent and is liquidated, wound up or dissolved without sufficient residual assets to settle any unpaid preferred dividend contractually entitled to be received by CVC Holdco, there is a possibility that CVC Holdco may enjoy economic benefits of less than HK$800 million in this respect;

(iv) parties agree that before CVC Holdco undertakes any trade sale (being the sale of EquityCo shares held by CVC Holdco to a third party buyer at an acceptable valuation to CVC Holdco) to effect its exit, the HK$800 million of preferred dividend must be first paid to CVC Holdco in full. If CVC Holdco has not been paid the HK$800 million of preferred dividend in cash, CVC Holdco could elect to either (a) remain in EquityCo until it is first paid the HK$800 million of preferred dividend in cash (using existing cash resources of the Offeror Group or by way of dividend recapitalisation) and then exit by way of a trade sale; or (b) exit and enjoy its economic benefits of HK$800 million through its conversion rights upon an initial public offering as detailed in paragraph (ii) above or the liquidation preference payment in the case of liquidation event as detailed in paragraph (iii) above; and

(v) EquityCo shareholders agree to endeavor to procure that EquityCo shall consummate a qualified initial public offering or a trade sale within three to five years after the Effective Date and that CVC Holdco has a right to exit ahead of and in priority to any other EquityCo shareholders through such qualified initial public offering or the trade sale. Under the Shareholders' Agreement, a qualified trade sale has been defined to be the sale of EquityCo shares held by CVC Holdco to a third party buyer at an acceptable valuation to CVC Holdco. In the event that CVC Holdco has not exited from EquityCo five years from the Effective Date, CVC Holdco has the right to decide, in its absolute discretion, whether and when EquityCo shall pursue a qualified initial public offering or a trade sale. Founder Holdco and EquityCo shall cooperate with CVC Holdco to consummate the qualified initial public offering or trade sale. As a company ultimately backed and controlled by a private equity fund, CVC Holdco has agreed to dispose all of its EquityCo shares and exit from EquityCo either through a qualified initial public offering or a trade sale within a reasonable period of time and in any event no later than 12 years from the Effective Date. Pursuant to the terms of the Shareholders' Agreement, EquityCo is contractually obligated to declare and pay to CVC Holdco the HK$800 million of preferred dividend in cash prior to CVC Holdco's exit. It is noted that pursuant to the terms of the Shareholders' Agreement, EquityCo is contractually obligated to declare and pay to CVC Holdco the HK$800 million of preferred dividend in cash prior to CVC Holdco's exit. As set out in paragraph (iv) above, the parties agree that before CVC Holdco exits through a trade sale, the HK$800 million of preferred dividend must be first paid to CVC Holdco in full. As set out in paragraph (ii) above, in the event of an initial public offering, CVC Holdco will be entitled to the economic benefit of the HK$800 million preferred dividend through its conversion right.

It is noted that EquityCo's ability to borrow as part of a dividend recapitalisation is just one option available to it to fund its payment of the preferred dividend. EquityCo may also fund the preferred dividend payment by using its own cash resources. EquityCo has the flexibility to distribute by way of dividend recapitalisation or using its own cash on its balance sheet or other distributable reserves.

A dividend recapitalisation provides one method which EquityCo may utilise for payment of the preferred dividend. As disclosed in the Scheme Document, in respect of a qualified trade sale, parties have agreed that CVC Holdco will not exit if EquityCo has not paid the HK$800 million of preferred dividend. If CVC Holdco has not been paid the HK$800 million of preferred dividend, CVC Holdco could elect to either (a) remain in EquityCo until it has been paid with the HK$800 million of preferred dividend in cash (using the cash resources and distributable reserves of the Group or by way of dividend recapitalisation) and then exit by way of a trade sale; or (b) exit and enjoy its economic benefits of HK$800 million through its conversion rights upon an IPO or the liquidation preference payment in the case of a liquidation event.

(c) Founder Holdco settling the HK$10 million nominal equity purchase price for the transfer of the Other Operations from the Offeror Group to Founder Holdco by setting off against the consideration of EquityCo's repurchase of Founder Holdco's EquityCo shares, representing HK$10 million EquityCo's share capital; and

(d) Founder Holdco agreeing, as part of the terms of the broader Joint Offeror Cooperation Arrangement, to pass to CVC Holdco certain rights including liquidation preference, exit preference and minority protection reserved matters in EquityCo, and subjecting Founder Holdco's EquityCo shares to transfer restrictions.

Each item of consideration described in paragraphs (a) to (d) above represents in aggregate all quantifiable consideration (totaling up to approximately HK$880 million, being the sum of (i) approximately HK$465 million of economic value as further described in paragraph (a) immediately above; (ii) up to approximately HK$405 million as further described in paragraph (b) immediately above; and (iii) approximately HK$10 million of economic value as further described in paragraph (c) immediately above and non-quantifiable consideration as described in paragraph (d) immediately above for CVC Holdco to transfer its 49.35% indirect interest in the Other Operations to Founder Holdco). The aggregate consideration (based on (a) to (c) above) for the transfer of CVC Holdco's 49.35% indirect interest in the Other Operations (the "**Founder Aggregate Consideration**") to Founder Holdco (the "**Asset Transaction**") is amounted up to approximately HK$880 million (as shown in the calculation set out in the sub-section headed "(ii) The Asset Transaction" below).

The Joint Offerors have agreed to undertake the Restructuring as part of the broader Joint Offeror Cooperation Arrangement package, rather than as a standalone transaction.

(b) Implications under the Takeovers Code

As the Joint Offeror Cooperation Arrangement (being: (a) the cancellation of the Founder Scheme Shares in consideration for the Founder Cancellation Consideration pursuant to the Joint Offeror Cooperation Arrangement; (b) the entry by the relevant members of the Founder Group, CVC Holdco and/or EquityCo into the Consortium Agreement and Shareholders' Agreement; and (c) the transactions in connection with the Restructuring (being the restructuring of the Group and the Offeror Group (as applicable) pursuant to: (i) the Framework Agreement (which terminated and superseded the Restructuring Term Sheet); (ii) the implementing agreements relating to asset or share transfers, transitional or long-term services and alternative arrangements in relation to the Restructuring; and (iii) the Refinancing Documents)) is not offered to all Shareholders (and is only offered to the members of the Founder Group, such that, after the Effective Date and the completion of the Restructuring, the Founder Group may continue to retain management control over, contribute to, participate in potential distributions of, and potentially benefit from non-guaranteed increase in value of the Offeror Group from the share adjustment, preferred dividend sharing and additional upside sharing mechanism in the Shareholders' Agreement, while at the same time bearing risk of a potential fall in value, potential losses, or potential streams of negative cash flows of, or potential need for additional capital injection into the Offeror Group, resulting from undesirable performance or adverse market conditions, amongst other factors), the Joint Offeror Cooperation Arrangement requires the consent of the Executive under Note 3 to Rule 25 of the Takeovers Code, and the Offeror has made an application for consent to the Executive.

The Proposal and the Scheme are subject to the fulfilment of the following conditions:

(a) the receipt of an opinion from us to the Independent Board Committee confirming that the Joint Offeror Cooperation Arrangement is fair and reasonable as far as the Disinterested Shareholders are concerned;

(b) the passing of an ordinary resolution by the Disinterested Shareholders at the SGM to approve the Joint Offeror Cooperation Arrangement; and

(c) the grant of consent from the Executive to the Joint Offeror Cooperation Arrangement, which will be conditional on satisfaction of the matters in paragraphs (a) and (b) above.

The Disinterested Shareholders should note that the Joint Offeror Cooperation Arrangement is an integral part of the Proposal and the Proposal is conditional on, among other things, the approval of the Joint Offeror Cooperation Arrangement. If the Joint Offeror Cooperation Arrangement is not approved, the Proposal will not proceed.

(c) Principal factors and reasons considered

In formulating our opinion and recommendation with regard to the Joint Offeror Cooperation Arrangement, we have taken into account of the following principal factors and reasons:

(i) The Founder Cancellation Consideration

As at the Latest Practicable Date, the Founder Group directly and indirectly held and/or controlled the voting rights over 760,599,564 Shares in aggregate, representing approximately 63.61% of the issued share capital of the Company, being the Founder Scheme Shares which form part of the Scheme Shares.

Upon the Scheme becoming effective, the Founder Scheme Shares will be cancelled in consideration for the Founder Cancellation Consideration whereas all Non-Founder Scheme Shares (being a total of 435,197,743 Shares representing approximately 36.39% of the total Shares) will be cancelled in consideration for the Cancellation Price in cash.

For cancellation of the Founder Scheme Shares, Founder Holdco will be entitled to receive a consideration, which is the crediting of the following:

(i) all of its approximately 50.65% unpaid EquityCo shares; and

(ii) approximately 13% of unpaid EquityCo shares that Founder Holdco has directed EquityCo to issue to CVC Holdco directly as part of the Asset Transaction, as being full paid in an amount equivalent to the aggregate amount of the Cancellation Price per Scheme Share with respect to all the Founder Scheme Shares.

We consider that the above mechanism can be simplified as the following two steps:

(i) Founder Holdco will be entitled to receive approximately 63.61% of EquityCo shares for cancellation of its approximately 63.61% shareholding interest in the Company; and

(ii) Founder Holdco will then transfer approximately 13% of EquityCo shares to CVC in consideration of the Asset Transaction.

Overall comments

Taking into consideration of the following:

(i) the entitlement of the Founder Cancellation Consideration by the Founder Group is in lieu of the Cancellation Price to be paid in cash to the Non-Founder Scheme Shareholders;

(ii) under the Proposal, the Shares of the Founder Group will be rolled over after the Proposal but not the Shares of the Non-Scheme Shareholders. Even if the shares of EquityCo were not offered to the Non-Founder Scheme Shareholders in lieu of cash for cancellation of their Shares, the terms of the Joint Offeror Cooperation Arrangement are still considered to be fair and reasonable after considering the following factors: (i) their interests in EquityCo as shareholders of a private company would not be subject to the corporate governance and minority protection provisions as stipulated under the Listing Rules such as shareholder's approval for certain notifiable transactions, connected transactions and anti-dilution rights which creates corporate governance problems on shareholders of a private company like financial frauds, tunneling and dilution of shares; (ii) as the Non-Scheme Shareholders are minority shareholders, the decision to vote for or against future business decisions would be impaired or have no casting effect and not influential to the final decision of EquityCo; (iii) they would face liquidity risk of the EquityCo shares as they are unlikely to be able to perform a sale of their minority stakes in unlisted shares due to the lack of an open market; (iv) although there are future exit opportunities of EquityCo by going public, there is no guarantee as to whether, when and how an initial public offering may be effected and the pricing of the EquityCo shares is uncertain; (v) the potential benefits that Non-Scheme Shareholders as minority shareholders of EquityCo could receive such as dividend payout and increase in equity value are also uncertain; (vi) as a private company, the transfer of the EquityCo shares is subject to restrictions as the articles of association of EquityCo typically stipulate that any transfer of the EquityCo Shares shall be subject to consent of the directors, which may be withheld for any or no reason; and (vii) unlike the Non-Founder Scheme Shareholders, the Chairman and the COO (each in his personal capacity) have extensive experience and expertise in the business operations of the Group and in-depth understanding of the Group's businesses as members of the core management of the Company. Therefore, the Founder Group is in a unique position with ability to take on the future risks in the operations of the Group in the face of market challenges and to formulate and implement strategies to contribute to the future development of the Group.

(iii) for the cancellation of the Founder Scheme Shares, the members of the Founder Group are entitled to the crediting of approximately 63.61% in total (being the sum of 50.54% and 12.96%) of unpaid EquityCo shares as being fully paid in an amount equivalent to the aggregate amount of the Cancellation Price per Scheme Share with respect to all the Founder Scheme Shares. That means the Cancellation Price is applied for both the Non-Founder Scheme Shares and the Founder Scheme Shares; and

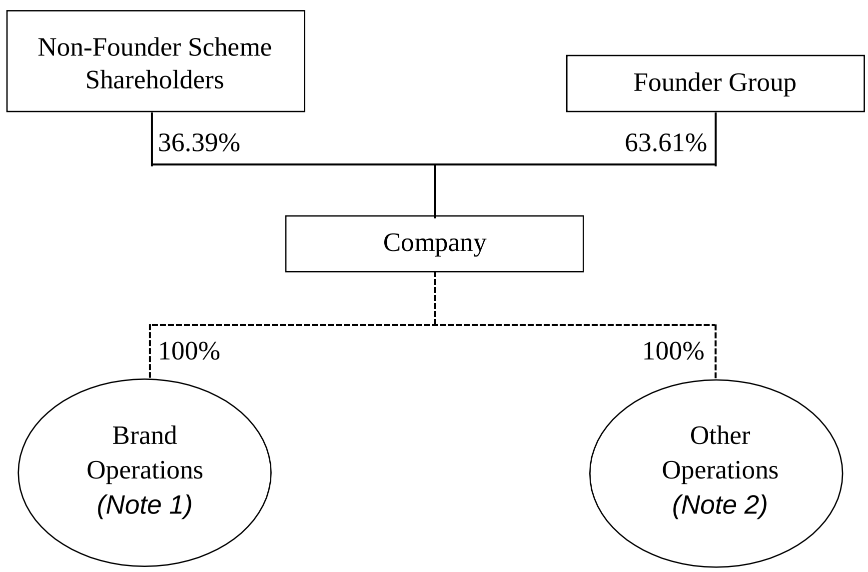
(iv) the Asset Transaction is considered to be fair and reasonable as the Other Operations Appraised Value as at the Valuation Date was approximately HK$730.9 million which is below the Founder Aggregate Consideration of up to approximately HK$880 million, details of which are set out in the sub-section headed "(b) Implied valuation of the Other Operations" under the section headed "(ii) The Asset Transaction" below, we are of the view that the Founder Cancellation Consideration is fair and reasonable so far as the Disinterested Shareholders are concerned.

(ii) The Asset Transaction

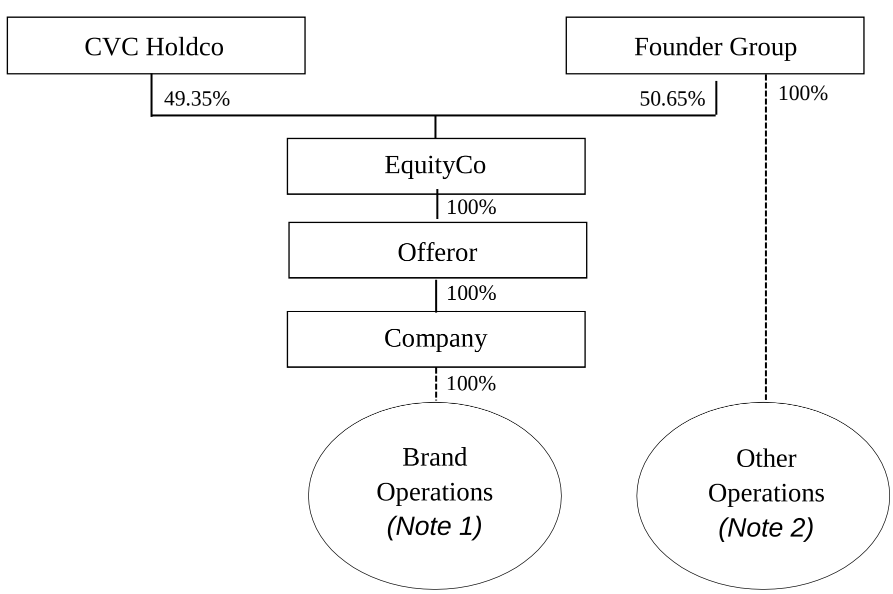
(a) Changes in the shareholding structure of the Company

The charts below set out the simplified shareholding structure of the Company for illustration purpose only:

As at the Latest Practicable Date



After the Effective Date and the completion of the Restructuring



Notes:

1. The Brand Operations will mainly include the Group's operations of design, sourcing, and sale of streetwear products bearing self-owned A Bathing Ape, AAPE by A Bathing Ape brands and associated sub-brands thereof, including without limitation Baby Milo, Milo Stores, BAPY, BAPE Black, and Mr. Bathing Ape. Unless otherwise agreed between the Joint Offerors, based on the scope of the Brand Operations as at the Latest Practicable Date, it is anticipated that upon completion of the Restructuring, (a) the Brand Operations will have leased stores, employees, assets, intellectual properties, and contractual relationships that are dedicated to the Brand Operations (the details of which are set out in the agreed lists of entities, assets, contracts, leases, employees, data and intellectual properties of the Brand Operations as annexed to the Framework Agreement), and sufficient cash to support its operations (being HK$126 million as at the end of March 2021 and additional cash generated or received by the Brand Operations afterwards); and
(b) the external bank debt of the Group borrowed by the entities dedicated for the Other Operations (being approximately HK$2 billion as at 31 October 2020 and approximately HK$1.8 billion as at 31 January 2021) will be fully repaid using (i) the Refinancing Proceeds (being up to HK$1.8 billion), (ii) the Group's existing cash reserves, and (iii) any shareholders' loan made under the Framework Agreement (including an interest-free shareholders' loan which may be provided by CVC Holdco to the Offeror Group pursuant to the Framework Agreement for up to an amount equivalent to the sum of HK$126 million plus applicable costs relating to the Refinancing Documents and be allocated to the Other Operations).

2. The Other Operations will mainly consist of the retail operations for the sale and distribution of garments bearing third-party owned brands (such as Off-White, Acne Studios, Comme des Garcons, and Fred Perry) and over 10 self-owned brands (such as:CHOCOOLATE). Unless otherwise agreed between the Joint Offerors, based on the scope of the Other Operations as at the Latest Practicable Date, it is anticipated that, upon completion of the Restructuring, (a) the Other Operations will have around 600 leased stores, more than 6,000 employees, over 10 self-owned brands, real properties, inventory, fixed assets and contractual relationships that are needed for the Other Operations, and the remaining cash of the Group other than those allocated to the Brand Operations sufficient for its operations; and (b) the external bank debt of the Group borrowed by the entities dedicated for the Other Operations (being approximately HK$2 billion as at 31 October 2020 and approximately HK$1.8 billion as at 31 January 2021) will be fully repaid using the Refinancing Proceeds (being up to HK$1.8 billion), the Group's existing cash reserves, any shareholders' loan made under the Framework Agreement (including an interest-free shareholder loan which may be provided by CVC Holdco to the Offeror Group pursuant to the Framework Agreement for up to an amount equivalent to the sum of HK$126 million plus applicable costs relating to the Refinancing Documents and be allocated to the Other Operations).

(b) Implied valuation of the Other Operations

As stated in the sub-section headed "(a) Key terms of the Joint Offeror Cooperation Arrangement" above, the consideration for the transfer of CVC Holdco's 49.35% indirect interest in the Other Operations to Founder Holdco includes, amongst others, the following:

(i) crediting as fully paid approximately 13% EquityCo shares to CVC Holdco (being approximately HK$465 million of economic value);

(ii) by agreeing that CVC Holdco's class B preference shares in EquityCo will have right to HK$800 million of preferred dividend (being up to approximately HK$405 million of economic value, representing the right to pro rata dividend in EquityCo that Founder Holdco has agreed to give up and pass to CVC Holdco); and

(iii) Founder Holdco settling the HK$10 million nominal equity purchase price for the transfer of the Other Operations from the Offeror Group to Founder Holdco by setting off against the consideration of EquityCo's repurchase of Founder Holdco's EquityCo shares representing HK$10 million EquityCo's share capital.

It should be noted that under various scenarios as stated in the sub-section headed "Consideration for transferring CVC Holdco's 49.35% indirect interest in the Other Operations to Founder Holdco" under the section headed "(iii) Transactions in connection with the Restructuring" above, CVC Holdco will be entitled to the economic benefits of HK$800 million of preferred dividend in the following matters:

(i) subject to applicable laws, so long as the balance sheet of the Brand Operations and its debt financing terms permit a distribution (including through a dividend re-capitalisation whereby EquityCo could borrow money to fund such preferred dividend payment together with any existing cash resources of the Offeror Group), CVC Holdco has the rights to demand the Brand Operations as soon as practicable to declare and pay such preferred dividend through cash distribution;

(ii) in the event of an initial public offering, additional ordinary shares of EquityCo to be converted from EquityCo class B preference shares held by CVC Holdco at the time of the initial public offering of the Offeror Group to cover, among other things, any unpaid preferred dividend;

(iii) in the event of a liquidation (including any liquidation, winding-up or dissolution of EquityCo, share sale resulting in Founder Holdco losing control, or sale of all or substantially all of the assets of EquityCo or any of its subsidiaries), CVC Holdco has the priority to entitle, among other things, the payment of unpaid preferred dividend; and

(iv) CVC Holdco will not undertake any trade sale to effect its exit unless the preferred dividend is fully paid to it. Under such circumstances, we consider that CVC Holdco can take other means to effect its exit such as an initial public offering.

As disclosed in the Scheme Document, in respect of a qualified trade sale, parties have agreed that CVC Holdco will not exit if EquityCo has not paid the HK$800 million of preferred dividend. If CVC Holdco has not been paid the HK$800 million of preferred dividend, CVC Holdco could elect to either (a) remain in EquityCo until it has been paid the HK$800 million of preferred dividend (using the cash resources and distributable reserves of the Group or by way of dividend recapitalisation) and then exit by way of a trade sale; or (b) exit and enjoy its economic benefits of HK$800 million through its conversion rights upon an IPO or the liquidation preference payment in the case of a liquidation event.

Based on the aforesaid, we consider that it is certain that CVC Holdco is entitled to the full economic benefits of HK$800 million of preferred dividend on or before its exit through an initial public offering, a liquidation or a trade sale. Shareholders should note that, although the HK$800 million of preferred dividend entitlement is a contractual arrangement, the actual economic benefits to be received by CVC Holdco may vary with, among other things, the availability of cash of EquityCo and/or the value of EquityCo under a specific exit scenario. If the EquityCo becomes insolvent and is liquidated, wound up or dissolved without sufficient residual assets to settle any unpaid preferred dividend contractually entitled to be received by CVC Holdco, there is a possibility that CVC Holdco may enjoy economic benefits of less than HK$800 million in this respect. However, it should be noted that the arrangement in relation to the HK$800 million of preferred dividend is in fact a bona fide commitment by both CVC Holdco and Founder Holdco and is part and parcel of the Proposal. As such, we consider that it is fair and reasonable to include the full economic benefits of the HK$800 million of preferred dividend to derive the Founder Aggregate Consideration (as shown in the table below) under the scenario of an initial public offering, a liquidation or a trade sale notwithstanding the fact that CVC Holdco may or may not get such full economic benefits eventually.

It is noted that it is the intention of the shareholders of EquityCo to procure EquityCo to consummate a qualified initial public offering or a trade sale in the next three to five years and CVC Holdco has a priority right to exit ahead of and in priority to any other EquityCo shareholders in such circumstances. In the event that CVC Holdco has not exited from EquityCo five years from the Effective Date, CVC Holdco has the right to decide, in its absolute discretion, whether and when EquityCo shall pursue a qualified initial public offering or a trade sale. It is also stated that as a company ultimately backed and controlled by private equity funds, CVC Holdco has agreed to dispose all of its EquityCo shares and exit from EquityCo within a reasonable period of time and in any event no later than 12 years from investment.

Having considered (i) the stated intention of CVC Holdco to effect an exit in the future; (ii) CVC Holdco is ultimately controlled by private equity funds; (iii) CVC Holdco has the absolute discretion to pursue a qualified public offering or a trade sale after five years from the Effective Date; (iv) the Brand Operations will continue to be managed by the Founder Group but not by CVC Holdco, we have no reasonable ground to doubt that CVC Holdco will not effect an exit in the future.

Based on the aforesaid, we are of the opinion that that the full amount of the preferred dividend of HK$800 million entitled by CVC Holdco shall be factored into the calculation of the Founder Aggregate Consideration.

Set out below is the calculation of the Founder Aggregate Consideration of 49.35% interest in the Other Operations as derived from the Asset Transaction based on the Cancellation Price:

Total number of issued Shares as at the Latest Practicable Date	a	shares	1,195,797,307
Cancellation Price	b	HK$	3
Implied valuation for 100% equity interest in the Company	c=a*b	HK$	3,587,391,921
% of EquityCo shares to be passed to CVC Holdco by Founder HoldCo (63.61% – 50.65%)	d		12.96%
Value of EquityCo shares to be passed to CVC Holdco by Founder Holdco	e=c*d	HK$	464,925,993
Nominal equity purchase price for the transfer of the Other Operations from the Offeror Group to Founder Holdco	f	HK$	10,000,000
Preferred dividend to be passed to CVC Holdco from Founder Holdco (HK$800,000,000 x 50.65%)	g	HK$	405,200,000
Value of the Founder Aggregate Consideration	**h=e+f+g**	**HK$**	**880,125,993**

(c) Appraised value of the Other Operations

In order to assess whether the terms of the Asset Transaction are fair and reasonable as far as the Disinterested Shareholders are concerned, we have compared the Founder Aggregate Consideration with the appraised value of 49.35% interest in the Other Operations (the "**Other Operations Appraised Value**"). The Other Operations has been valued by the Valuer. The full text of the valuation report (the "**Valuation Report**") as at 31 December 2020 (the "**Valuation Date**") is set out in Appendix II to the Scheme Document.

In order to assess the basis in determining the Other Operations Appraised Value, we have reviewed the Valuation Report and discussed with the Valuer. We noted that the Valuation Report is prepared with reference to the International Valuation Standards issued by International Valuation Standards Council. Besides, we have also reviewed and enquired the Valuer's qualification and experience in relation to the performance of the valuation. We understand that the Valuer has relevant experience in valuing similar businesses in Greater China over the years and they are independent from the Company and other parties involved in the Proposal and the Scheme.

Following discussions with the Valuer, we understand that the Valuer has considered (i) market approach; (ii) cost approach; and (iii) income approach. The Valuer considered that cost approach and income approach are not appropriate as there are substantial limitations given the unique characteristics of the Other Operations. Firstly, the income approach requires subjective assumptions to which the valuation is highly sensitive. The retail industry is one of the hardest hit industries by COVID-19. The Other Operations had been impacted by COVID-19 as tourism had been one of the main drivers of its business in multiple operating markets. Detailed operational information and long-term financial projections are also needed to arrive at an indication of value but such information is highly uncertain as at the Valuation Date given the performance of the Other Operations had been continuously impacted by the pandemic. As the derived value based on the income approach is highly dependent on the reliability of the financial projections, given the uncertain short term and long-term development of the retail industry due to the significant uncertainty over the magnitude and time period of the impact of COVID-19, the financial projections, which would base on highly subjective assumptions, may not be reliable and thus the income approach is not adopted in the valuation. Secondly, the cost approach does not directly incorporate information about the economic benefits and future earnings or loss potential contributed by the Other Operations as a going concern business. Due to the nature of the business, the economic value of the Other Operations is mainly attributable to the earning or loss potential of the business but not the value or replacement costs of its assets.

On the other hand, the Valuer considered that market approach takes recent transaction prices for similar assets into account. It also requires fewer assumptions and includes objectivity in application as publicly available information is used. Hence, the market approach is an appropriate approach adopted for the Other Operations Appraised Value.

The Valuer has used the market approach through two methods, namely guideline public company method and comparable transaction method. Under comparable transaction method, the Valuer looked at comparable transactions in apparel industry in Greater China. We noted that the Valuer has identified two comparable transactions. We have discussed with the Valuer and reviewed the selection basis on the comparable transactions in the apparel industry. We understand that such selection is based on (i) transactions announced or completed during 12 months before the Valuation Date and (ii) target company engages in similar business as the Other Operations in Greater China. We considered that 12 month period is appropriate given that the period can cover the latest transactions which reflected the latest market conditions. However, the Valuer considered that two comparable transactions identified were insufficient and not timely as the latest development of the pandemic and market consensus may not be reflected therein as at the Valuation Date. Hence, the Other Operations Appraised Value is solely determined based on the guideline public company method.

Under guideline public company method, we note that the Valuer has identified six comparable companies. We have discussed with the Valuer and reviewed the selection basis on the comparable companies under such method and understand that such selection is based on companies that (i) derive their revenues in PRC and Hong Kong from the same industry of the Other Operations; (ii) are searchable in Bloomberg; (iii) are publicly listed in Hong Kong and have significant operation in Greater China region, particularly in both PRC and Hong Kong; (iv) had market capitalisation of less than HK$5 billion as of the Valuation Date; and (v) had EV/EBITDA multiple as at the Valuation Date on the companies that were available.

The selection criteria of the comparable companies by the Valuer are in line with our selection criteria as set out in the sub-section headed "(c) Comparable Companies analysis" under the section headed "7. Evaluation of the Cancellation Price" above.

According to the Valuation Report, the Other Operations Appraised Value is derived from market approach based on the market value of the Other Operations. The market value is defined as "the estimated amount for which an asset or liability should be exchanged on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion". The valuation in the Valuation Report is based on the unaudited EBITDA with adjustment of impairment charge of the Other Operations for the 12 months ended 31 December 2020 (the "**Profit Estimate**") provided by the Company. The Other Operations will be operated on a standalone basis upon the completion of the Restructuring. Given the Brand Operations and Other Operations are not operated separately, the Group has prepared the Profit Estimate through segregation of profit and loss items from the co-mingled Brand Operations and Other Operations. We have reviewed the Profit Estimate and are of the opinion that the Profit Estimate, for which the Directors are solely responsible, has been made with due care and consideration. For further details, please refer to Appendix III "Letters from the Joint Independent Financial Advisers and the auditor of the Company on the Profit Estimate" set out in the Scheme Document.

Overall comments

We concur with the Valuer's view that guideline public company method under the market approach is appropriate for determining the Other Operations' Appraised Value. We consider that the Valuer's selection criterion on market capitalisation is appropriate given that the Other Operations will be operated under private companies as opposed to the Company as a listed company. We concur with the Valuer's view that EV/EBITDA multiple is an appropriate valuation methodology.

According to the Valuation Report, the Other Operations Appraised Value as at the Valuation Date was approximately HK$730.9 million. Such amount is below the Founder Aggregate Consideration of up to approximately HK$880 million. As such, we consider that the terms of the Asset Transaction are fair and reasonable so far as the Disinterested Shareholders are concerned.

(iii) Terms of the Shareholders' Agreement

The Shareholders' Agreement in respect of governance of the Offeror Group is intended to take full effect upon the Scheme becoming effective. We consider that the terms of the Shareholders' Agreement can be broadly classified into the following three categories for discussion purpose:

(i) Terms applied to both Founder Holdco and CVC Holdco;
(ii) Terms that may not be considered as favourable to the Founder Group; and
(iii) Terms that may be considered as favourable to the Founder Group.

i. Terms applied to both Founder Holdco and CVC Holdco

Terms applied to both Founder Holdco and CVC Holdco including board composition, voting rights, pre-emption rights, conversion rights and termination of the Shareholders' Agreement.

ii. Terms that may not be considered as favourable to the Founder Group

Terms that may not be considered as favourable to the Founder Group are those terms that the Founder Group passes to CVC Holdco certain rights including (i) CVC Holdco shall be entitled to a preferred dividend of HK$800 million (so long as the Offeror Group's balance sheet and debt financing terms permit such distribution); (ii) liquidation preference; (iii) exit preference; (iv) minority protection reserved matters in EquityCo over which CVC Holdco shall have a veto right; (v) transfer restrictions on Founder Holdco's EquityCo shares; and (vi) non-competition.

iii. Terms that may be considered as favourable to the Founder Group

Terms that may be considered as favourable to the Founder Group are those terms that the Founder Group may receive benefits in the future including share adjustment under which all or part of 13% of EquityCo shares issued to CVC Holdco at the direction of Founder Holdco are subject to potential adjustment and may be returned to Founder Holdco for nil consideration upon CVC Holdco's future exits from EquityCo through a qualified initial public offering or a trade sale, preferred dividend sharing and additional upside sharing after the Effective Date, details of which are set out in the sub-section headed "(ii) Shareholders' Agreement" in the section headed "(a) Key terms of the Joint Offeror Cooperation Arrangement" above on page 44.

Overall comments

In assessing the fairness and reasonableness of the terms of the Shareholders' Agreement, we have considered the following factors:

(a) the terms are part of the consensual arrangements between the Founder Group and CVC Holdco for sharing the potential risks and rewards of the EquityCo following completion of the Proposal and the Restructuring;

(b) the Founder Group has to pass certain rights to CVC Holdco including Founder Holdco would pass up to approximately HK$405 million of economic value as a result of CVC Holdco being entitled to preferred dividend of up to HK$800 million (so long as the Offeror Group's balance sheet and debt financing terms permit such distribution); and

(c) the terms that may be perceived as favourable to the Founder Group are considered to be acceptable given the following:

– the Founder Holdco will have to bear the risk of a potential fall in value of EquityCo or potential need for additional capital injection as being a shareholder of the EquityCo after completion of the Proposal;

– the potential benefits arising from upside sharing arrangements consist of (i) the share adjustment arrangement under which the net money-on-money return achieved by CVC Holdco through its future exits from EquityCo is in the range from 3.2 times to 3.5 times, up to approximately 13% of EquityCo shares will be proportionally returned to Founder Holdco upon CVC Holdco's future exits from EquityCo in accordance with a gradual scale; (ii) the preferred dividend sharing arrangement under which after taking into account the share adjustment as described in (i) above, if the net money-on-money return achieved by CVC Holdco upon its future exits from EquityCo is greater than 3.5 times, CVC Holdco will share with Founder Holdco up to 63.5% of its preferred dividend actually received by CVC Holdco from EquityCo (to the extent that CVC Holdco's net money-on-money return remains above 3.5 times); and (iii) the additional upside sharing arrangement under which after taking into account the share adjustment and the preferred dividend sharing as described in (i) and (ii) above, if the net money-on-money return achieved by CVC Holdco through its future exits from EquityCo still exceeds 3.5 times, CVC Holdco will share with Founder Holdco an additional cash amount equal to approximately 15% of CVC Holdco's net return that is in excess of 3.5 times. We note that these potential benefits that the Founder Group may receive are all conditional upon the attainment of at least 3.2 times of net money-on-money return (calculated based on CVC Holdco's net return amount and investment amount) by CVC Holdco upon its future exits from EquityCo, therefore there is no certainty that the Founder Group would receive these potential benefits eventually. We also note that these potential benefits the Founder Group may receive will be provided by CVC Holdco which will in turn reduce the net investment return on EquityCo of CVC Holdco. In case the net money-on-money return that could be achieved by CVC Holdco from its future exits of EquityCo was at 3.2 times or above, partial of its money-on-money return would be transferred to the Founder Group by way of EquityCo's shares that CVC Holdco owns, preferred dividend received by CVC Holdco or by cash, which in substance would reduce the net investment return on EquityCo of CVC Holdco from its future exits of EquityCo.

The yardsticks are contingent on the consideration to be received by CVC Holdco upon its future exits which in turn will depend on the future operations and financial performance of the Brand Operations after completion of the Proposal.

It should be noted that the potential benefits to the Founder Group are not based on the current state of the Group's operations and financial performance. We consider that this has been taken into account in the valuation of the Group as implied by the Cancellation Price. We believe that the purpose of such arrangement is to motivate and incentivise the Chairman and the CCO in managing the Brand Operations as their contributions are critical to the future development of the Brand Operations and is not a mean to provide additional benefits to the Founder Group in the capacity of a Shareholder;

– there is no certainty on whether, when and how CVC Holdco's future exit return would be materialised nor there is any guarantee that the potential additional benefits to the Founder Group will be received by the Founder Group. The potential benefits to be received by the Founder Group on the share adjustment, preferred dividend sharing and additional upside sharing under the Shareholders' Agreement do not represent parts of the value of, nor the consideration paid for, CVC Holdco's interests in the Other Operations on or around the Effective Date while the economic value of the Founder Aggregate Consideration will be transferred with certainty on or around the Effective Date, which in turn is independent of and unrelated to any future share adjustment, preferred dividend and additional upside sharing. These potential benefits would be regarded as potential compensations to the Founder Group with respect to their efforts to be put into the future operation and development of the Brand Operations, while they do not represent parts of the consideration for the Asset Transaction; and

– the Founder Group has to pass certain rights to CVC Holdco as stated in (b) above.

Based on the aforesaid analysis, we are of the view that terms of the Shareholders' Agreement are fair and reasonable so far as the Disinterested Shareholders are concerned.

(iv) transactions in connection with the Restructuring

Based on our review of the agreements and arrangements under the Restructuring, we note that the transactions in connection with the Restructuring are for the segregation of the Group's co-mingled Brand Operations and the Other Operations so as to achieve the purpose of operating the Brand Operations and the Other Operations independently as well as provision of certain services between the Brand Operations and the Other Operations. It is noted that the services to be provided are charged at cost except certain long-term services will be determined based on market price and arm's length commercial negotiations and on terms no more favorable than the terms available to and/or from any independent third-party service provider providing similar services in the relevant local market. As such, we consider that the pricing mechanism of the services agreements are fair and reasonable. After completion of the Restructuring, EquityCo will continue to own the Brand Operations and Founder Holdco will own the Other Operations. The Restructuring will be effected and completed after the Effective Date. We consider that the transactions will not affect the interests of the Disinterested Shareholders as the transactions will take place after the Effective Date. Furthermore, the Restructuring is part and parcel of the Proposal. We, therefore, are of the view that the transactions in connection with the Restructuring are fair and reasonable so far as the Disinterested Shareholders are concerned.

RECOMMENDATION

In arriving at our recommendation in respect of the Proposal, the Scheme and the Joint Offeror Cooperation Arrangement, we have considered the principal factors and reasons as discussed above and in particular the following (which should be read in conjunction with and interpreted in the full context of this letter):

- *Deterioration of the Group's financial performance*

The Group's operating and financial performance was weak in FY19/20 due to the social instability in Hong Kong and it has further been adversely affected by COVID-19 pandemic. The Group's turnover decreased by approximately 12.6% to approximately HK$7,719.4 million from FY18/19 to FY19/20 and decreased by approximately 31.9% to approximately HK$2,734.7 million from 1H FY19/20 to 1H FY20/21. The negative comparable-store-sales growth particularly in the Hong Kong and Macau segment since FY18/19 and in each of Hong Kong and Macau, PRC and Japan and the US in 1H FY20/21 and the reduction in the number of stores led to the substantial decline in turnover.

PRC and Hong Kong operations are major revenue contributors of the Group. In FY19/20, both of PRC segment and the Hong Kong and Macau segment incurred losses. In 1H FY20/21, though PRC operations recorded segment profit, the profit could only offset about one-fourth of the loss incurred from Hong Kong and Macau operations. Japan and US operations recorded segmental profit in FY19/20. However, the Japan and US segment's profit plunged by approximately 73.1% in 1H FY20/21 on YoY basis. The deterioration of the financial performance of the Group in FY19/20 and 1H FY20/21 was primarily attributable to the substantial losses incurred from the Hong Kong and Macau segment. Given the retail industry outlook of Hong Kong remains bleak, we consider that turnaround of the Group's Hong Kong and Macau segment is unlikely to happen soon.

The financial position of the Group was affected by the deterioration of financial performance. The Group turned from a net cash position of approximately HK$612.0 million as at 28 February 2019 to a net debt position as at 29 February 2020 and 31 August 2020 of approximately HK$470.4 million and HK$441.7 million respectively, primarily due to the increase in total borrowings, from approximately HK$1,160.0 million as at 28 February 2019 to approximately HK$1,927.2 million as at 29 February 2020 and approximately HK$2,008.6 million as at 31 August 2020. As at 31 August 2020, the Company had approximately HK$2.0 billion of credit facilities and approximately HK$1.6 billion of cash and cash equivalents. Approximately HK$1.7 billion of these credit facilities will be due by the end of 2022, of which a total of approximately HK$455 million will be due by the end of April 2021.

- *Challenges brought by the change in consumer behaviour caused by the gradual shift of consumer preference to shopping online*

The growing of e-commerce has caused structural changes to consumer preferences and shopping behaviour. The Group has accelerated the pace of the digital development, both through their own e-commerce channel and via third-party online marketplaces, focusing on redirecting the customer flow to digital channels through online promotional campaigns. Although e-commerce sales have registered significant growth, this growth was not sufficient to compensate for the sales losses incurred by the Group's retail stores. The shift in consumption behaviour requires business transformation to resume long-term sustainable growth of the Group.

- *Transformation of the business will involve risks and may or may not be successful*

In view of the challenges to the Group's business brought on by COVID-19 pandemic and the gradual shift of consumer preference to shop online, transformation is pivotal in the Group's future. The transformation will inevitably involve execution, market and financial risks and may or may not be successful.

- *The Proposal represents an opportunity for the Non-Founder Scheme Shareholders to realise their investments in the Shares at substantial premiums over the Share prices prior to the issue of the Joint Announcement without suffering illiquidity discount*

The premiums as represented by the Cancellation Price were approximately 84.7%, 135.5%, 162.4%, 173.0% and 156.7%, over the average closing prices for the periods of five, 30, 60, 90 and 180 trading days up to and including the Last Trading Date, respectively.

We have reviewed the Share price performance since 1 January 2019. The Share performance at the beginning of our review period was traded by investors with reference to, among other things, the interim results of the Group for the six months ended 31 August 2018, the then latest financial performance reference of the Group, being a profit for the period of approximately HK$113.4 million. We note that the Group issued six profit warning announcements during the period under review. As such, we believe that the Share price performance was largely affected by the adverse changes in financial performance of the Group. The Group incurred loss of approximately HK$337.3 million for the six months ended 31 August 2020, being the then latest financial results of the Group prior to the Last Trading Date.

In general, there was a downward trend of the Share price from 18 January 2019 and until the Last Trading Date whereby the Share price dropped significantly during the said period with closing price from HK$4.28 on 18 January 2019 as the highest to HK$0.96 as the lowest on 10 August 2020 during the said period.

The Share price surged by approximately 44.8% to close at HK$2.81 on 7 December 2020, being the first trading day following the issue of the Joint Announcement, and we consider that the surge in Share price was driven by the announcement of the Proposal, in particular, the Cancellation Price of HK$3 per Scheme Share. From 7 December 2020 to the Latest Practicable Date, the Shares traded between HK$2.73 to HK$2.89. The prevailing Share price may not be sustained if the Scheme is not approved or the Proposal otherwise lapses.

Given the low liquidity of the Shares, it is difficult for the Disinterested Shareholders to sell their shareholdings in large volume without adversely affecting the Share price.

The Scheme provides an attractive and immediate opportunity for the Scheme Shareholders to monetise their Shares at the fixed Cancellation Price, which is at a significant premium to the market prices of the Company prior to the issue of the Joint Announcement.

- *The Cancellation Price is fair and reasonable*

We consider the Cancellation Price is fair and reasonable after taking into consideration of the following:

(a) the closing prices of the Shares were below the Cancellation Price for over 16 consecutive months from 25 July 2019 to the Last Trading Date;

(b) the EV/EBITDA ratio of the Company as implied by the Cancellation Price was approximately 5.1 times, which was higher than the average and median of the EV/EBITDA ratio of the Comparable Companies of approximately 4.0 times and 3.1 times respectively on the Last Trading Date; and

(c) the premium as represented by the Cancellation Price was approximately 84.7% over the average closing price of the Shares for the five trading days up to and including the Last Trading Date, which was within the range and higher than the average of approximately 55.7% and median of approximately 59.8% of those of the Successful Privatisation Precedents. The premiums as represented by the Cancellation Price were approximately 135.5%, 162.4%, 173.0% and 156.7% over the average closing prices of the Shares for the periods of 30, 60, 90 and 180 trading days up to and including the Last Trading Date, respectively, which were more than the respective maximum premium of those of the Successful Privatisation Precedents.

- *The terms of the Joint Offeror Cooperation Arrangement are fair and reasonable*

We are of the view that the terms of the Joint Offeror Cooperation Arrangement are fair and reasonable after considering the following:

(a) the entitlement of the Founder Cancellation Consideration by the Founder Group is in lieu of the Cancellation Price to be paid in cash to the Non-Founder Scheme Shareholders;

(b) for the cancellation of the Founder Scheme Shares, the members of the Founder Group are entitled to the crediting of approximately 63.61% in total (being the sum of 50.54% and 12.96%) of unpaid EquityCo shares as being fully paid in an amount equivalent to the aggregate amount of the Cancellation Price per Scheme Share with respect to all the Founder Scheme Shares. That means the Cancellation Price is applied for both the Non-Founder Scheme Shares and the Founder Scheme Shares;

(c) the terms that may be perceived as favourable to the Founder Group are considered to be acceptable given the following:

– the Founder Holdco will have to bear the risk of a potential fall in value, or potential need for additional capital injection as being a shareholder of the EquityCo after completion of the Proposal;

– the potential benefits to be received by the Founder Group including share adjustment, preferred dividend sharing and additional upside sharing are all conditional upon the attainment of certain net money-on-money return (calculated based on CVC Holdco's net return amount and investment amount) by CVC Holdco upon its future exits. It should be noted that the potential benefits are not based on the current state of the Group's operations and financial performance, which we consider this has been factored in the valuation of the Group as implied by the Cancellation Price. The potential benefits to the Founder Group will be provided by CVC Holdco from the investment return upon future exit which will in turn reduce the total investment return of CVC Holdco in this transaction and will be based on the future operating and financial performance of the Brand Operations. We believe that the purpose of such arrangement is to motivate and incentivise the Chairman and the CCO in managing the Brand Operations as their contributions are critical to the future development of the Brand Operations and is not a mean to provide additional benefits to the Founder Group in the capacity of a Shareholder; and

– the Founder Group has to pass certain rights to CVC Holdco as stipulated under the Shareholders' Agreement;

(d) the Founder Aggregate Consideration as derived from the Asset Transaction based on the Cancellation Price is up to approximately HK$880 million.

As the Other Operations Appraised Value of approximately HK$730.9 million as at the Valuation Date is below the Founder Aggregate Consideration, we consider that the Founder Aggregate Consideration and the terms of the Asset Transaction are fair and reasonable so far as the Disinterested Shareholders are concerned; and

(e) transactions in connection with the Restructuring

Based on our review of the agreements and arrangements under the Restructuring, we note that the transactions in connection with the Restructuring are for the segregation of the Group's co-mingled Brand Operations and the Other Operations so as to achieve the purpose of operating the Brand Operations and the Other Operations independently as well as provision of certain services between the Brand Operations and the Other Operations. It is noted that the services to be provided are charged at cost except certain long-term services will be determined based on market price and arm's length commercial negotiations and on terms no more favorable than the terms available to and/or from any independent third-party service provider providing similar services in the relevant local market. After completion of the Restructuring, EquityCo will continue to own the Brand Operations and Founder Holdco will own the Other Operations. The Restructuring will be effected and completed after the Effective Date. We consider that the transactions will not affect the interests of the Disinterested Shareholders as the transactions will take place after the Effective Date and the services are charged based on costs or market prices. Furthermore, the Restructuring is part and parcel of the Proposal. We, therefore, are of the view that the transactions in connection with the Restructuring are fair and reasonable so far as the Disinterested Shareholders are concerned.

Based on the above, we consider that the terms of the Proposal, including the Scheme and the Joint Offeror Cooperation Arrangement, are fair and reasonable so far as the Disinterested Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend the Disinterested Shareholders to vote in favour of the Scheme at the Scheme Meeting and the Joint Offeror Cooperation Arrangement at the SGM.

The Disinterested Shareholders should note that the Joint Offeror Cooperation Arrangement is an integral part of the Proposal which is considered to be fair and reasonable so far as the Disinterested Shareholders are concerned and the Proposal is conditional on, among other things, the approval of the Joint Offeror Cooperation Arrangement. If the Joint Offeror Cooperation Arrangement is not approved, the Proposal will not proceed.

The Disinterested Shareholders are reminded that as stated in the "Explanatory Statement" in the Scheme Document, the Cancellation Price will not be increased and the Offeror does not reserve the right to do so, and if the Scheme is not approved or the Proposal otherwise lapses, neither the Offeror nor any person who acted in concert with it in the course of the Proposal (nor any person who is subsequently acting in concert with any of them) may, within 12 months from the date on which the Scheme is not approved or the Proposal otherwise lapses, announce an offer or possible offer for the Company, except with the consent of the Executive.

Yours faithfully,
For and on behalf of

Challenge Capital Management Limited

Jackson Woo
Managing Director

China Tonghai Capital Limited

Benny Chung
Co-Chief Executive Officer

Noelle Hung
Managing Director

Mr. Jackson Woo is the Managing Director of Challenge Capital and is licensed under the SFO as a Responsible Officer to carry out, among others, Type 6 (advising on corporate finance) regulated activity and has approximately 20 years of experience in corporate finance.

Mr. Benny Chung is a Co-Chief Executive Officer of China Tonghai and is licensed under the SFO as a Responsible Officer to carry out, among others, Type 6 (advising on corporate finance) regulated activity and has approximately 20 years of experience in corporate finance.

Ms. Noelle Hung is a Managing Director of China Tonghai and is licensed under the SFO as a Responsible Officer to carry out, among others, Type 6 (advising on corporate finance) regulated activity and has approximately 20 years of experience in corporate finance.