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## THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

**If you have sold or transferred** all your securities in **The Sincere Company, Limited**, you should at once hand this Response Document to the purchaser(s) or transferee(s) or to the bank, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

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**sincere 先施**

### **THE SINCERE COMPANY, LIMITED**

*(Incorporated in Hong Kong with limited liability)*

**(Stock Code: 0244)**

**RESPONSE DOCUMENT IN RELATION TO  
THE VOLUNTARY CONDITIONAL CASH OFFER BY  
REALORD ASIA PACIFIC SECURITIES LIMITED  
FOR AND ON BEHALF OF  
REALORD GROUP HOLDINGS LIMITED  
TO ACQUIRE ALL THE ISSUED SHARES OF  
THE SINCERE COMPANY, LIMITED**

**Financial Adviser to the Company**



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



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Capitalised terms used in this cover page shall have the same meanings as those defined in the section headed “Definitions” in this Response Document unless the content requires otherwise.

A letter from the Board is set out on pages 7 to 15 of this Response Document. A letter from the IBC containing its advice to the Shareholders in respect of the Offer is set out on pages 16 to 17 of this Response Document. A letter from Yue Xiu Capital containing its advice to the IBC in respect of the Offer is set out on pages 18 to 42 of this Response Document.

20 May 2021

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## EXPECTED TIMETABLE

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*The expected timetable set out below is indicative only and may be subject to change. Further announcement(s) will be made in the event of any changes to the timetable as and when appropriate.*

Event	Time and date 2021
Final Closing Date ( <i>Note 1</i> ) .....	Thursday, 3 June
Latest time and date for acceptance of the Offer on the Final Closing Date ( <i>Notes 2 &amp; 3</i> ) .....	4:00 p.m. on Thursday, 3 June
Announcement of the results of the Offer as at the Final Closing Date to be posted on the websites of the Stock Exchange, Sincere and Realord.....	by 7:00 p.m. on Thursday, 3 June
Latest date for posting of remittances for the amount due in respect of valid acceptances received under the Offer on or before 4:00 p.m. on the Final Closing Date ( <i>Note 4</i> ).....	Tuesday, 15 June

*Notes:*

- (1) The Offer is open for acceptance for at least 28 days following the date on which the Offer Document was posted i.e., 5 May 2021.
- (2) Beneficial owners of SinCo Shares who hold their SinCo Shares in CCASS directly as an investor participant or indirectly via a broker or custodian participant should note the timing requirements (as set out in Appendix I to the Offer Document) for causing instructions to be made to CCASS in accordance with the General Rules of CCASS and CCASS Operational Procedures. Acceptances of the Offer are irrevocable and are not capable of being withdrawn, except in the circumstances set out under “6 Right of Withdrawal” in Appendix I to the Offer Document.
- (3) This Response Document is posted after the date on which the Offer Document is posted. In accordance with the Takeovers Code, the Offer must initially be open for acceptance for at least 28 days following the date on which the Offer Document is posted. On 7 May 2021, the Offeror published an announcement stating that the Offer had become unconditional in all respects and there are no longer any conditions to the Offer. In the same announcement, it is also stated the Offer will not be extended. Accordingly, the latest time and date for acceptance of the Offer on the Final Closing Date is 4:00 p.m. on Thursday, 3 June 2021.
- (4) The Offeror has stated that remittances in respect of the cash consideration for the SinCo Shares tendered under the Offer will be posted to each accepting SinCo Shareholder (to the address specified on the relevant SinCo Shareholder’s Form of Acceptance) by ordinary post at his/her/its own risk as soon as possible, but in any event within seven (7) Business Days following the later of the date of receipt by the Receiving Agent of the accompanying Form of Acceptance and all the relevant documents necessary to render the acceptance under the Offer complete, valid and in compliance with Note 1 to Rule 30.2 of the Takeovers Code.

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## EXPECTED TIMETABLE

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- (5) The Offeror has stated that the latest time and date for acceptance of the Offer and the latest date for posting of remittances for the amounts due under the Offer in respect of valid acceptances will change if there is a tropical cyclone warning signal number 8 or above, or a “black rainstorm warning”, in force in Hong Kong or “extreme conditions” caused by super typhoon is announced by The Government of Hong Kong Special Administrative Region at any time between 12:00 noon and 4:00 p.m. on the latest date for acceptance of the Offer and the latest date for posting of remittances for the amounts due under the Offer in respect of valid acceptances. Instead the latest time for acceptance of the Offer and the posting of remittances will be rescheduled to 4:00 p.m. on the next following Business Day which does not have either of those warnings in force at any time between 9:00 a.m. and 4:00 p.m.

Save as mentioned above, if the latest time for the acceptance of the Offer does not take effect on the time and date as stated above, the other dates mentioned above may be affected. The Offeror has stated that it will notify the Shareholders by way of announcement(s) on any change to the expected timetable as soon as practicable.

**All references to dates and time contained in this Response Document refer to Hong Kong dates and time.**

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## DEFINITIONS

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*In this Response Document, unless the context otherwise requires, the following expressions shall have the following meanings*

“2020 Annual Report”	the annual report of the Company for the year ended 29 February 2020
“acting in concert”	the meaning ascribed to it under the Takeovers Code
“Announcement Date”	Friday, 15 May 2020, being the date of the Joint Announcement
“associates”	the meaning ascribed to it under the Takeovers Code
“Board”	the board of Directors
“Business Day”	the meaning ascribed to it under the Takeovers Code
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Company” or “Sincere”	The Sincere Company, Limited, a company incorporated in Hong Kong with limited liability and the shares of which are listed on the Main Board of the Stock Exchange (stock code: 0244)
“connected persons”	the meaning ascribed thereto in the Listing Rules
“Deed”	the deed of gift executed by Win Dynamic dated 29 October 2020 in favour of the Company, pursuant to which Win Dynamic has irrevocably undertaken to the Company to give to the Company the sum falling to be paid by the Offeror to Win Dynamic upon its acceptance of the Offer
“Dissenting Directors”	Mr. Philip K H Ma and Mr. Charles M W Chan, both of whom are directors of the Company, and are the only directors and shareholders of Win Dynamic
“Directors”	director(s) of the Company
“Dr. Lin”	Dr. Lin Xiaohui, who according to the Offer Document, is the chairman and an executive director of the Offeror and the spouse of Madam Su, also the owner of approximately 70% of the issued share capital of MHL, which is the controlling shareholder of the Offeror
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any of his delegates

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## DEFINITIONS

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“Facility”	the loan facility of HK\$150,000,000 provided under the Facility Agreement
“Facility Agreement”	the loan facility agreement entered into between the Company and the Lender in respect of the Facility on 18 February 2021, details of which were disclosed in the announcements of the Company dated 25 February 2021 and 31 March 2021
“February 2020 NAV”	consolidated net assets of the Group as at 29 February 2020 attributable to the Shareholders
“Final Closing Date”	Thursday, 3 June 2021, being at least 28 days after the date of despatch of the Offer Document and not less than 14 days after the date on which the Offer was declared unconditional in all respects; or such subsequent closing date (if any) as may be announced by the Offeror and approved by the Executive
“Final Offer Price”	HK\$0.3935 per Share
“Form of Acceptance”	the form of acceptance and transfer in respect of the Offer accompanying the Offer Document
“Group”	the Company and its subsidiaries
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“IBC”	the independent committee of the Board comprising all the independent non-executive Directors, namely Mr. King Wing Ma, Mr. Eric K K Lo, Mr. Peter Tan and Mr. Anders W L Lau, which has been established to advise the independent Shareholders in respect of the Offer
“Initial Offer Price”	HK\$0.3806 per Share
“Insurance Authority”	the Insurance Authority established under the Insurance Ordinance
“Insurance Ordinance”	the Insurance Ordinance (Chapter 41 of the Laws of Hong Kong)
“Irrevocable Undertakings”	together, the SC Irrevocable Undertakings and the WD Irrevocable Undertaking

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## DEFINITIONS

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“Joint Announcement”	the announcement dated 15 May 2020 jointly made by Realord and the Company in relation to, among other things, the Offer
“Last Trading Day”	4 May 2020, being the last trading day of the Shares on the Stock Exchange prior to the issuance of the Joint Announcement
“Latest Practicable Date”	17 May 2021, being the latest practicable date prior to the printing of this Response Document for ascertaining certain information for inclusion in this Response Document
“Lender”	the financial institution that is independent of the Company and its connected persons, which entered into the Facility with the Company on 18 February 2021
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Madam Su”	Su Jiaohua, who according to the Offer Document, is an executive director of the Offeror and spouse of Dr. Lin, also the owner of approximately 30% of the issued share capital of MHL, which is the controlling shareholder of the Offeror
“Main Board”	the main board maintained and operated by the Stock Exchange
“MHL”	as disclosed in the Offer Document, Manureen Holdings Limited, a company incorporated in the British Virgin Islands with limited liability, and the controlling shareholder of the Offeror, which is owned as to 70% by Dr. Lin and as to 30% by Madam Su
“Offer”	the voluntary conditional cash general offer by Realord Asia Pacific for and on behalf of the Offeror to acquire all of the issued Shares in accordance with the terms and conditions set out in the Offer Document
“Offer Document”	the offer document dated 5 May 2021 despatched by the Offeror to the Shareholders containing, inter alia, the details of the Offer, together with the Form of Acceptance
“Offer Document LPD”	3 May 2021, the date stated in the Offer Document as being the latest practicable date prior to the printing of the Offer Document for the purpose of ascertaining certain information contained therein

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## DEFINITIONS

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“Offer Period”	the meaning ascribed to it in the Takeovers Code, being the period commenced on 15 May 2020, being the Announcement Date, and will end on the later of (i) the Final Closing Date; and (ii) the date when the Offer lapses
“Offeror” or “Realord”	Realord Group Holdings Limited, a company incorporated in Bermuda with limited liability and the shares of which are listed on the Main Board of the Stock Exchange (stock code: 1196)
“Pelican Financial”	Pelican Financial Limited, a corporation licensed to carry out type 6 (advising on corporate finance) regulated activity under the SFO, being the financial adviser to the Company in relation to the Offer
“Perfumery”	The Sincere Company (Perfumery Manufacturers), Limited, a company incorporated in Hong Kong with limited liability and a subsidiary of the Company
“Pre-Conditions”	the pre-conditions of the Offer as described in the Joint Announcement, which the Offeror has declared fulfilled and/or waived in its announcement dated 28 April 2021
“PRC”	the People’s Republic of China which, for the purpose of this Response Document, shall exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Purported Cancellation”	the purported cancellation of the Deed in a letter from Win Dynamic dated 3 February 2021
“Realord Asia Pacific”	Realord Asia Pacific Securities Limited (formerly known as Realord Manureen Securities Limited), a non-wholly-owned subsidiary of the Offeror and a corporation licensed to carry out type 1 (dealing in securities) and type 2 (dealing in futures contracts) regulated activity under the SFO, which is making the Offer on behalf of the Offeror
“Realord Finance”	Realord Finance Limited, a wholly-owned subsidiary of the Offeror principally engaged in the money lending business
“Realord Group”	the Offeror and its subsidiaries
“Realord Share(s)”	ordinary share(s) in the issued share capital of the Offeror



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## DEFINITIONS

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“Receiving Agent”	Union Registrars Limited, the receiving agent of the Offeror with respect to the Offer, located at Suites 3301-04, 33/F, Two Chinachem Exchange Square, 338 King’s Road, North Point, Hong Kong
“Relevant Period”	the period from 16 November 2019, being the date falling six months before the Announcement Date, up to and including the Latest Practicable Date
“Response Document”	this response document dated 20 May 2021 in respect of the Offer issued by the Company in accordance with the Takeovers Code
“SC Irrevocable Undertakings”	collectively, the irrevocable undertakings to accept the Offer all dated 15 May 2020 given by each of the Sincere Companies to the Offeror as described in the sections headed “The Irrevocable Undertakings” in the Letter from the Board in this Response Document
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Sincere Companies”	Sincere LA, Sincere II and Perfumery
“Sincere II”	The Sincere Insurance & Investment Company, Limited, a company incorporated in Hong Kong with limited liability and a non-wholly owned subsidiary of the Company
“Sincere LA”	The Sincere Life Assurance Company Limited, a company incorporated in Hong Kong with limited liability and a non-wholly owned subsidiary of the Company
“Share(s)” or “SinCo Share(s)”	ordinary share(s) in the issued share capital of the Company
“Shareholder(s)” or “SinCo Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	The Code on Takeovers and Mergers
“WD Irrevocable Undertaking”	the irrevocable undertaking to accept the Offer dated 15 May 2020 given by Win Dynamic to the Offeror as described in the section headed “The Irrevocable Undertakings” in the Letter from the Board in this Response Document

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## DEFINITIONS

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“Win Dynamic”	Win Dynamic Limited, a company incorporated in Hong Kong with limited liability and prior to its acceptance of the Offer the controlling shareholder of the Company, which is owned as to 70% by Mr. Philip K H Ma and 30% by Mr. Charles M W Chan, the Dissenting Directors
“Yue Xiu Capital”	Yue Xiu Capital Limited, a corporation licensed to carry out type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser to the IBC appointed by the Company in relation to the Offer
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent.
“sq.m.”	square metre

*If there is any inconsistency in this circular between the Chinese and English versions, then English version shall prevail.*

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## LETTER FROM THE BOARD

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**sincere** 先施

### THE SINCERE COMPANY, LIMITED

*(Incorporated in Hong Kong with limited liability)*

**(Stock Code: 0244)**

*Executive Director:*

Mr. Philip K H Ma (*Chairman & CEO*)

*Non-executive Director:*

Mr. Charles M W Chan

*Independent non-executive Directors:*

Mr. King Wing Ma

Mr. Eric K K Lo

Mr. Peter Tan

Mr. Anders W L Lau

*Registered Office:*

24/F Leighton Centre

77 Leighton Road

Hong Kong

20 May 2021

*To the Shareholders,*

Dear Sir or Madam,

**VOLUNTARY CONDITIONAL CASH OFFER BY  
REALORD ASIA PACIFIC SECURITIES LIMITED  
FOR AND ON BEHALF OF  
REALORD GROUP HOLDINGS LIMITED  
TO ACQUIRE ALL OF THE ISSUED SHARES OF  
THE SINCERE COMPANY, LIMITED**

#### INTRODUCTION

Reference is made to the Joint Announcement, the announcement of the Offeror dated 28 April 2021 and 7 May 2021 and the Offer Document.

As announced in the Joint Announcement, Realord Asia Pacific intended to make, on behalf of the Offeror and subject to the satisfaction or waiver (as the case may be) of Pre-Conditions, a voluntary conditional cash offer to acquire all of the issued Shares.

As announced in the announcement of the Offeror dated 28 April 2021 and the Offer Document, the Pre-Conditions have been satisfied or waived (as the case may be) and Realord Asia Pacific, on behalf of the Offeror, has made a voluntary conditional cash offer in compliance with the Takeovers Code to acquire all the Shares on the terms and subject to the conditions set out in the Offer Document and the Form of Acceptance.

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## LETTER FROM THE BOARD

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The purpose of this Response Document is to provide you with, among other things, (i) information relating to the Offer and the Group; (ii) a letter of recommendation from the IBC to the independent Shareholders in respect of the terms of the Offer and as to acceptance of the Offer; and (iii) a letter of advice from Yue Xiu Capital to the IBC in respect of the terms of the Offer and as to acceptance of the Offer.

You are advised to read this Response Document, the recommendation of the IBC and the letter from Yue Xiu Capital in conjunction with the Offer Document carefully before taking any action in respect of the Offer.

Shareholders and potential investors are advised to exercise extreme caution when dealing in the Shares. Persons who are in doubt as to the action they should take should consult their stockbroker, bank manager, solicitor or other professional advisers.

### THE OFFER

The following information about the Offer is based on and extracted from the Offer Document. You are recommended to refer to the Offer Document and the Form of Acceptance for further details. The Offer is being made by Realord Asia Pacific, for and on behalf of the Offeror on the following basis:

For each Share ..... HK\$0.3935 in cash

As disclosed in the Offer Document, the Final Offer Price is HK\$0.3935 per Share after the upward adjustment set out in the joint announcement of the Company and the Offeror dated 17 June 2020.

According to the Offer Document, by accepting the Offer, the Shareholders will sell their Shares to the Offeror free from all rights of pre-emption, options, liens, claims, equities, charges, encumbrances and any other third party rights of any nature and together with all rights attached to them as at the Final Closing Date or subsequently becoming attached to them, including but not limited to all rights to any dividend or other distribution declared, made or paid, if any, the record date of which is on or after the date of the despatch of the Offer Document. Any dividend or other distribution, the record date of which is before the date of the despatch of the Offer Document, will be paid by Company to the Shareholders who are qualified for such dividend or distributions.

As at the Latest Practicable Date, there were 1,313,962,560 Shares in issue and no other outstanding options, derivatives, warrants or securities which are convertible or exchangeable into Shares.

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## LETTER FROM THE BOARD

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### Condition to the Offer

As disclosed in the Offer Document, the Offer was then conditional only on valid acceptances of the Offer being received (and not, where permitted, withdrawn) by 4:00 p.m. on the Final Closing Date (or such later time or date as the Offeror may, subject to the Takeovers Code, decide) in respect of the Shares which, together with the Shares acquired or to be acquired before or during the Offer, will result in the Offeror and parties acting in concert with it holding more than 50% of the voting rights of the Company.

As at the Offer Document LPD, Win Dynamic held 662,525,276 Shares and the Sincere Companies held 260,443,200 Shares in aggregate, representing approximately 50.42% and 19.82% of the Shares in issue, respectively. Win Dynamic and the Sincere Companies had respectively given the Irrevocable Undertakings to the Offeror to accept the Offer.

According to the announcement made by the Offeror on 7 May 2021, each of Win Dynamic and the Sincere Companies have accepted the Offer and the Offer had become unconditional (the “**Unconditional Announcement**”) in all respects and there are no longer any conditions to the Offer. Pursuant to Rule 15.1 of the Takeovers Code, where the Response Document is posted after the date on which the Offer Document is posted, the Offer should remain open for acceptance for at least 28 days following the date on which the Offer Document is posted. Accordingly, the Offer will remain open for acceptance until 4:00 p.m. on 3 June 2021, which will be the Final Closing Date of the Offer (the Offeror has stated that it will not be extended).

### Details of the Offer

All details of the Offer including, among others, the terms and conditions and the procedures for acceptance and settlement are set out in the Offer Document.

### THE IRREVOCABLE UNDERTAKINGS

Pursuant to the WD Irrevocable Undertaking, Win Dynamic irrevocably undertook to the Offeror to tender, or procure the tender of, 662,525,276 Shares (representing approximately 50.42% of the Shares in issue as at the Offer Document LPD for acceptance under the Offer. As stated in the Unconditional Announcement, Win Dynamic has tendered its acceptance of the Offer pursuant to the WD Irrevocable Undertaking and accordingly, the condition of the Offer (set out in the paragraph headed “3 Condition of the Offer” of the “Letter from Realord Asia Pacific” in the Offer Document) has been met and the Offer has become unconditional.

Pursuant to the SC Irrevocable Undertakings, each of the Sincere Companies irrevocably undertook to the Offeror to tender, or procure the tender of, all of its Shares, being 183,136,032 Shares in the case of Sincere LA, 75,608,064 Shares in the case of Sincere II and 1,699,104 Shares in the case of Perfumery (representing approximately 13.94%, 5.75% and 0.13% of the Shares, respectively, in issue as at the Offer Document LPD), for acceptance under the Offer. As stated in the Unconditional Announcement, the Sincere Companies have tendered their acceptance of the Offer pursuant to the SC Irrevocable Undertaking.

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## LETTER FROM THE BOARD

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According to the announcement made by the Offeror on 7 May 2021, the Offeror had received valid acceptances of the Offer of 922,968,476 Shares (representing approximately 70.24% of the Share in issue).

### INFORMATION ON THE GROUP

The Group is principally engaged in the operation of department stores, securities trading and the provision of general and life insurances.

#### The Department Store Operations

The Company operates department stores selling a wide range of consumer products (the “**Department Store Operations**”) which have a long heritage in the Hong Kong retail industry and are the core business of the Group. Its history can be traced back to as early as 1900. Over more than the hundred years of operations, the brand of “Sincere” has become well known to the local community. As at the Latest Practicable Date, the Group operated five retail outlets, in Mongkok, Central, Sham Shui Po, Yau Tong and Tsuen Wan.

#### Perfumery

Perfumery was incorporated in Hong Kong on 13 May 1926 with limited liability and its principal activities consist of investments in securities and earning interest income. Other than investments in securities, Perfumery does not have any operations or any subsidiary.

#### Sincere II and Sincere LA

Sincere II was incorporated in Hong Kong on 12 July 1915 with limited liability and its principal activity is carrying on general insurance business. Sincere II has minimal operations which mainly involve the run-off of certain expired property damage insurance policies. It has no other active business operation and recorded revenue of HK\$66,545 and HK\$19,666 for the two years ended 28 February 2019 and 29 February 2020, respectively. Sincere II has one subsidiary which is incorporated in the British Virgin Islands and is dormant. The Insurance Authority issued a letter to Sincere II on 18 August 2020 requiring Sincere II (i) not to effect any contracts of insurance; and (ii) not to vary any contracts of insurance being contracts effected in the course of carrying on insurance business and in force when the requirement was imposed (collectively, the “**Requirements**”). The Requirements took effect on 28 August 2020.

Sincere LA was incorporated in Hong Kong on 14 October 1922 with limited liability and its principal activity is carrying on life insurance business. Sincere LA has minimal operations which mainly involve the run off of insurance contracts entered into more than 10 years ago. Sincere LA has ceased to carry on new business and did not record any revenue for the two years ended 28 February 2019 and 29 February 2020. Sincere LA has one subsidiary, which is incorporated in the British Virgin Islands and is dormant.

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## LETTER FROM THE BOARD

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On 14 September 2020, the Insurance Authority issued a letter to Sincere LA and Sincere II requiring Sincere LA and Sincere II to submit their respective action plans to run-off their existing insurance policies (the “**Action Plans**”) with the primary objective of ensuring the interests of the existing policy holders of Sincere LA and Sincere II are adequately protected. As at the Latest Practicable Date, the Action Plans had been approved by the Insurance Authority and Sincere II and Sincere LA had been carrying out the Action Plans accordingly. On 16 April 2021, as disclosed in the announcement of Realord dated 28 April 2021 and the Offer Document, the Insurance Authority notified the Offeror, MHL, Dr. Lin and Madam Su (collectively, the “**New Controllers**”) that the Insurance Authority has no objections (the “**IA No Objections**”) to the Offeror, MHL, Dr. Lin and Madam Su becoming controllers of Sincere LA and Sincere II within the meaning of section 13B(1) of the Insurance Ordinance, and the Offeror has committed to the Insurance Authority that it will exercise its control over Sincere LA and Sincere II so as to procure that Sincere LA and Sincere II will comply with the Action Plans.

With regard to the IA No Objections, Shareholders and potential investors of Sincere should note that:

- Sincere LA and Sincere II have ceased to enter into new insurance contracts; and
- the non-objections in relation to the New Controllers have been approved by the Insurance Authority on the basis of their fitness and properness to complete the run-off of Sincere LA and Sincere II, i.e. to ensure the obligations of Sincere LA and Sincere II under their respective existing contracts of insurance are discharged in a timely and efficient manner.

As disclosed in the same announcement of Realord dated 28 April 2021 and the Offer Document, the Insurance Authority has a policy with regards to authorized insurers which are in run-off, to require that the run-off be discharged in an orderly fashion and then for the authorization of the insurer to be withdrawn; the Offeror notes the Insurance Authority’s policy and will complete the run off of the insurance business of Sincere LA and Sincere II in accordance with the Action Plan.

The IA No Objections issued by the Insurance Authority will be valid for 6 months from 16 April 2021 and will lapse if the Offeror, MHL, Dr. Lin and Madam Su have not become controllers within the meaning of section 13B(1) of the Insurance Ordinance within the said period.

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## LETTER FROM THE BOARD

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### **The Deed**

As disclosed in the announcement of the Company dated 29 October 2020, on 29 October 2020, Win Dynamic, the controlling shareholder of the Company, executed the Deed in favour of the Company at no consideration. Pursuant to the Deed, Win Dynamic has irrevocably undertaken to the Company to give to the Company the sum falling to be paid by the Offeror to Win Dynamic upon its acceptance of the Offer relating to all the 662,525,276 Shares held by it, which is expected to amount to approximately HK\$260,442,992 (after deducting Win Dynamic's ad valorem stamp duty). As disclosed in the announcement of the Company dated 29 October 2020, the Company at that time intended that this gift from Win Dynamic, when received, will be applied as working capital of the Group.

### **The Purported Cancellation**

On 4 February 2021, the Company announced that the Board had received a letter from Win Dynamic dated 3 February 2021 stating that the Deed is null and void and cancelled with immediate effect, for the reason that it was executed by Win Dynamic under undue influence and duress, given without separate legal representation or proper advice, and is an undervalue transaction pursuant to section 265D of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32 of the Laws of Hong Kong). As stated in the Company's announcement dated 4 February 2021, the Board (with the Dissenting Directors disagreeing) does not admit the Deed is null or void or has been cancelled. For the interest of the Company and its shareholders as a whole, the Board has resolved to include the review of the implication of the Purported Cancellation to the term of reference of the IBC. The IBC had thereafter sought separate legal advice in respect of the Purported Cancellation. In response to a letter from the legal adviser of the IBC to Win Dynamic requesting for evidence to support its reason for the Purported Cancellation, Win Dynamic responded in its reply letter that its professional advisers have advised it not to provide to Sincere any information relating to the Deed.

The Offeror was informed, amongst other things, that the Board (except for the Dissenting Directors) (i.e., the IBC) does not admit that the Purported Cancellation is valid or effective. In response to an email from the legal adviser of IBC to the legal adviser of the Offeror requiring the proceeds received by Win Dynamic from its sale of Shares to the Offeror to be paid to Sincere and not Win Dynamic, the legal adviser of the Offeror responded amongst other things to the effect that the Offeror will conduct the Offer, including but not limited to the settlement of the cash consideration for the valid acceptances of the Offer, in accordance with the terms and conditions of the Offer and in compliance with the Takeovers Code.

Your attention is also drawn to Appendix I to this Response Document which contain further financial and other information of the Group.



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## LETTER FROM THE BOARD

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### SHAREHOLDING STRUCTURE OF THE COMPANY

The following table sets out the shareholding structure of the Company as at 7 May 2021, being the date of the announcement made by the Offeror which states that, among others, each of Win Dynamic and the Sincere Companies have accepted the Offer and the Offer has become unconditional in all respects:

Name of Shareholder	As at 7 May 2021	
	Number of Shares	%
Realord Group Holdings Limited	922,968,476	70.24
Win Dynamic ( <i>Note a</i> )	—	0.00
Sincere LA ( <i>Note b</i> )	—	0.00
Sincere II ( <i>Note b</i> )	—	0.00
Perfumery ( <i>Note b</i> )	—	0.00
Directors	8,703,728	0.66
Other public Shareholders	382,290,356	29.10
<b>Total</b>	<b>1,313,962,560</b>	<b>100.00</b>

*Note a:* On 6 May 2021, Win Dynamic tendered its acceptance of the Offer pursuant to the WD Irrevocable Undertaking.

*Note b:* On 6 May 2021, each of the Sincere Companies tendered its acceptance of the Offer pursuant to the SC Irrevocable Undertaking.

### INFORMATION OF THE OFFEROR AND INTENTIONS OF THE OFFEROR REGARDING THE GROUP AND ITS EMPLOYEES

As disclosed in the Offer Document, the Offeror is a company incorporated in Bermuda with limited liability and the shares of which are listed and traded on the Main Board of the Stock Exchange. As disclosed in the Offer Document, as at the Offer Document LPD, MHL was the controlling shareholder of the Offeror beneficially interested in 1,073,160,000 Realord Shares, representing approximately 74.62% of the issued share capital of the Offeror. MHL is owned as to 70% by Dr. Lin and as to 30% by Madam Su.

It is disclosed in the Offer Document that, the Realord Group is principally engaged in (i) provision of financial printing, digital printing and other related services; (ii) sales of hangtags, labels, shirt paper boards and plastic bags principally to manufacturers of consumer products; (iii) distribution and sales of motor vehicle parts; (iv) provision of corporate finance advisory, asset management, securities brokerage services and margin financing services; (v) property investment and development and commercial operations; and (vi) the environmental protection industry. The Realord Group has been actively engaging in property investment and development and urban renewal business in Shenzhen, the PRC. Such properties include Realord Mall, which is part of the “Realord Villa” located in Longhua District of Shenzhen, the PRC. It is designed as a large-scale all-in-one shopping mall with a gross floor area of approximately 51,039 sq.m. integrating local amenities, entertainment and leisure, parent-child education, and specialty food and beverage experience.

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## LETTER FROM THE BOARD

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As disclosed in the Offer Document, it is the intention of the Offeror to continue with the Group's existing principal business. The Offeror will conduct a detailed review on the financial position, business and operations of the Group in order to formulate a long-term strategy for the Group and explore other business or investment opportunities for enhancing its future development and strengthening its revenue bases.

As disclosed in the Offer Document, the Offeror, as at the Offer Document LPD, had no plan, and had not engaged in any discussion or negotiation, on any injection of any assets or businesses into the Group, and had no intention to discontinue the employment of the employees of the Group (other than the proposed change of the Board and the senior management of Company as set out in the paragraph headed "11.1 Proposed change of the board composition and the senior management of Sincere" in the "Letter from Realord Asia Pacific" of the Offer Document), or to dispose of or redeploy the assets of the Group.

The Board has noted the intentions of the Offeror in respect of the Group as stated above. As at the Latest Practicable Date, (i) Mr. Eric K K Lo, Mr. Peter Tan, Mr. Charles M W Chan and Mr. Anders W L Lau, intend to resign upon or after the Final Closing Date; and (ii) Mr. Philip K H Ma and Mr. King Wing Ma intend to remain on the Board.

### MAINTAINING THE LISTING STATUS OF THE COMPANY

As disclosed in the Offer Document, the Offeror intends to maintain the listing of the Shares on the Stock Exchange after the close of the Offer. The directors of Realord and the new Directors nominated by Realord for appointment to the Board have jointly and severally undertaken to the Stock Exchange to take appropriate steps to ensure that sufficient public float exists for the Shares. The Stock Exchange has stated that if, at the close of the Offer, less than the minimum prescribed percentage applicable to the Company, being 25%, of the Shares are held by the public or if the Stock Exchange believes that (i) a false market exists or may exist in the trading of the Shares; or (ii) there are insufficient Shares held in public hands to maintain an orderly market, it will consider exercising its discretion to suspend trading in the Shares until the prescribed level of public float is restored.

### COMPULSORY ACQUISITION

The Offeror has indicated in the Offer Document that it does not intend to avail itself of any powers of compulsory acquisition of any Shares outstanding after the Final Closing Date.

### ADVICE AND RECOMMENDATION

Pursuant to Rules 2.1 of the Takeovers Code, the IBC comprising all the independent non-executive directors of the Company, namely Mr. King Wing Ma, Mr. Eric K K Lo, Mr. Peter Tan and Mr. Anders W L Lau, has been established to make a recommendation to the independent Shareholders as to whether the Offer is fair and reasonable and as to acceptance of the Offer. Another non-executive director of the Company, namely Mr. Charles M W Chan one of the Dissenting Directors, is not a member of the IBC because of his interest in the WD Irrevocable Undertaking through Win Dynamic. Yue Xiu Capital has been appointed the independent financial adviser to the IBC, with the approval of the IBC, to advise the IBC in respect of the Offer.

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## LETTER FROM THE BOARD

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Your attention is drawn to the letter from the IBC and the letter from Yue Xiu Capital contained in this Response Document setting out their respective advice and recommendations to the IBC or the independent Shareholders (as the case may be) in respect of the Offer, and the principal factors and reasons they have considered before arriving at their respective recommendations and advice. Independent Shareholders should read these letters in conjunction with the Offer Document carefully before taking any action in respect of the Offer.

### ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this Response Document. You are also recommended to read carefully the Offer as set out in the Offer Document and the Form of Acceptance which contain details of the Offer before deciding whether or not to accept the Offer.

Yours faithfully,  
By order of the Board  
**The Sincere Company, Limited**  
**Philip K H Ma**  
*Chairman & CEO*

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## LETTER FROM THE IBC

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*Set out below is the text of the letter of recommendation from the IBC in respect of the Offer which has been prepared for the purpose of inclusion in this Response Document.*



### **THE SINCERE COMPANY, LIMITED**

*(Incorporated in Hong Kong with limited liability)*

**(Stock Code: 0244)**

20 May 2021

*To the independent Shareholders,*

Dear Sir or Madam,

**VOLUNTARY CONDITIONAL CASH OFFER BY  
REALORD ASIA PACIFIC SECURITIES LIMITED  
FOR AND ON BEHALF OF  
REALORD GROUP HOLDINGS LIMITED  
TO ACQUIRE ALL OF THE ISSUED SHARES OF  
THE SINCERE COMPANY, LIMITED**

We refer to the Response Document dated 20 May 2021 issued by the Company in response to the Offer Document, in which this letter forms part. Terms defined in the Response Document shall have the same meanings in this letter unless the context otherwise requires.

We have been appointed by the Board to form the IBC to consider and to advise the independent Shareholders as to whether or not the terms of the Offer are fair and reasonable and to make a recommendation as to acceptance of the Offer. Yue Xiu Capital has been appointed as the independent financial adviser with our approval to advise us in respect of the above. Details of its advice and the principal factors considered by it in arriving at its advice and recommendation are set out in the letter from Yue Xiu Capital in the Response Document.

Having considered the terms of the Offer and the advice of Yue Xiu Capital, we concur with Yue Xiu Capital's advice and consider that the terms of the Offer are fair and reasonable so far as the independent Shareholders are concerned and we recommend the independent Shareholders to accept the Offer.

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## LETTER FROM THE IBC

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Notwithstanding our recommendation, the independent Shareholders should consider carefully the terms of the Offer and are recommended to read the full text of the letter from Yue Xiu Capital in this Response Document before making a decision to accept or reject the Offer. The independent Shareholders are strongly advised that their decision to realise or to hold their investment in the Company depends on their own individual circumstances and investment objectives and their perception of the Purported Cancellation, on which we are unable to express a view. If in any doubt, the independent Shareholders should consult their own professional advisers for professional advice.

Yours faithfully,

**The IBC of**

**The Sincere Company, Limited**

**Mr. King Wing Ma**

**Mr. Eric K K Lo**

**Mr. Peter Tan**

**Mr. Anders W L Lau**

*Independent non-executive directors of the Company*

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## LETTER FROM YUE XIU CAPITAL

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*The following is the text of the letter from the letter from Yue Xiu Capital, the independent financial adviser appointed to advise the IBC, which has been prepared for the purpose of incorporation into this Response Document, setting out its advice to the IBC in connection with the Offer.*



28/F., Siu On Centre  
188 Lockhart Road, Wanchai  
Hong Kong

20 May 2021

*To: the independent board committee of The Sincere Company, Limited*

Dear Sirs,

**VOLUNTARY CONDITIONAL CASH OFFER BY  
REALORD ASIA PACIFIC SECURITIES LIMITED  
FOR AND ON BEHALF OF  
REALORD GROUP HOLDINGS LIMITED  
TO ACQUIRE ALL THE ISSUED SHARES OF  
THE SINCERE COMPANY, LIMITED**

### **I. INTRODUCTION**

We refer to our engagement to advise the IBC with respect to the voluntary conditional cash offer by Realord Asia Pacific for and on behalf of the Offeror to acquire all the issued Shares, details of which are set out in the Offer Document and summarised in the letter from the Board (“**Letter from the Board**”) contained in the Response Document dated 20 May 2021, of which this letter forms part. The terms used in this letter shall have the same meanings as defined elsewhere in the Response Document unless the context otherwise requires.

On 15 May 2020, the Offeror and the Company published the Joint Announcement stating that Realord Asia Pacific intended to make, for and on behalf of the Offeror and subject to the satisfaction or the waiver (as the case may be) of the Pre-Conditions, a voluntary conditional cash offer to acquire all of the issued Shares. On 17 June 2020, the Offeror and the Company published another joint announcement (the “**Second Joint Announcement**”) in relation to the finalisation of the offer price at HK\$0.3935 per Share, which is the Final Offer Price. On 28 April 2021, all the Pre-Conditions have been fulfilled or waived (as the case may be).

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## LETTER FROM YUE XIU CAPITAL

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On 5 May 2021, the Offeror despatched the Offer Document, accompanied by the Form of Acceptance.

Pursuant to the WD Irrevocable Undertaking, Win Dynamic has irrevocably undertaken to the Offeror (i) to tender, or procure the tender of, all of its 662,525,276 Shares (representing approximately 50.42% of the Shares in issue as at the Latest Practicable Date) beneficially owned by it for acceptance under the Offer no later than the fifth Business Day following the despatch of the Offer Document; and (ii) that it will remain as the beneficial owner of the 662,525,276 Shares until the tender of the Shares owned by it under the Offer.

Pursuant to the SC Irrevocable Undertakings, each of the Sincere Companies has irrevocably undertaken to the Offeror (i) to tender, or procure the tender of, all of the Shares beneficially owned by it, being 183,136,032 Shares in the case of Sincere LA, 75,608,064 Shares in the case of Sincere II and 1,699,104 Shares in the case of Perfumery (representing approximately 13.94%, 5.75% and 0.13% of the Shares in issue, respectively, as at the Latest Practicable Date), for acceptance under the Offer no later than the fifth Business Day following the despatch of the Offer Document; and (ii) that it will remain as the beneficial owner of the Shares it holds until the tender of the Shares owned by it under the Offer.

According to the announcement of the Offeror dated 7 May 2021, each of Win Dynamic and the Sincere Companies have, in accordance with the WD Irrevocable Undertaking and the SC Irrevocable Undertakings, respectively, accepted the Offer in respect of an aggregate of 922,968,476 Shares, representing approximately 70.24% of the entire issued share capital of the Company as at the even date, which would result in the Offeror and parties acting in concert with it holding more than 50% of the voting rights of the Company. Accordingly, the condition to the Offer as set out in the Offer Document has been fulfilled, and the Offer has become unconditional in all respects on 7 May 2021.

### **1. The IBC and the independent financial adviser to the IBC**

The IBC comprising Mr. King Wing Ma, Mr. Eric K K Lo, Mr. Peter Tan and Mr. Anders W L Lau, all of whom are independent non-executive Directors, has been established for the purpose of advising the independent Shareholders on whether the terms of the Offer are, or are not, fair and reasonable as so far as the independent Shareholders are concerned, and whether the independent Shareholders should, or should not accept the Offer. Mr. Philip K H Ma (executive director of the Company) and Mr. Charles M W Chan (non-executive director of the Company) are both shareholders and directors of Win Dynamic, and are not members of the IBC. We, Yue Xiu Capital, have been appointed as the independent financial adviser to advise the IBC in this respect, and our opinion herein is solely for the assistance of the IBC in connection with its consideration of the Offer pursuant to Rule 2.1 of the Takeovers Code. Our appointment as the independent financial adviser in relation to the Offer has been approved by the IBC.

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## LETTER FROM YUE XIU CAPITAL

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We are not associated with the Company, the Offeror or any of their respective associates or any party acting, or presumed to be acting, in concert with any of them and, accordingly, are considered eligible to give independent advice on the Offer. Apart from normal professional fees paid or payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company, the Offeror or any of their respective associates or any party acting, or presumed to be acting, in concert with any of them.

### **2. Basis of our advice**

In formulating our opinion, we have relied on the statements, information, opinions and representations contained or referred to in the Response Document and/or provided to us by the Company, the Directors and the management of the Group. We have assumed that all views, opinions and statements of intention provided by the Directors and the management of the Group have been arrived at after due and careful enquiry. We have reviewed, amongst others, (i) the information set out in the Offer Document and the Response Document; (ii) the interim report of the Group for the six months ended 31 August 2020 (the “**2020 Interim Report**”); (iii) the 2020 Annual Report; (iv) the annual report of the Company for the year ended 28 February 2019 (“**2019 Annual Report**”); (v) the Joint Announcement; (vi) the Second Joint Announcement in relation to, among other things, the Final Offer Price; (vii) announcements made by the Company during the two years ended 29 February 2020 and up to the Latest Practicable Date; (viii) the trading performance of the Shares on the Stock Exchange; and (ix) the announcements published by the Offeror and the Company in relation to the Offer.

The Directors have confirmed to us that no material facts have been withheld or omitted from the information supplied and opinions expressed. We consider that the information and documents we have received are sufficient for us to reach an informed view and to provide a reasonable basis for our opinion set out in this letter. We have no reason to suspect any relevant information has been withheld, nor are we aware of any facts or circumstances which would render the information provided and representations made to us untrue, inaccurate or misleading. We have not, however, carried out any independent verification of the information provided, nor have we conducted any form of in-depth investigation into the businesses, affairs, operations, financial position, plans, projections or future prospects of the Group, the Offeror or any of their respective associates or any party acting, or presumed to be acting, in concert with any of them. Our opinion is necessarily based on the financial, economic, market and other conditions in effect, and the information made available to us, as at the Latest Practicable Date.



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## LETTER FROM YUE XIU CAPITAL

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We have also assumed that all statements, information, opinions and representations contained or referred to in the Response Document and/or provided to us were true, accurate and complete in all respects at the time they were made and at the date of the Response Document, and will continue to be true up to the Latest Practicable Date in accordance with Rule 9.1 of the Takeovers Code. Shareholders will be informed by the Offeror and the Company as soon as practicable if there is any material change to the information contained or referred to herein throughout the offer period, in which case we will consider whether it is necessary to revise our opinion and inform the IBC and the independent Shareholders accordingly.

This letter is issued for the information of the IBC solely in connection with their consideration of the terms of the Offer, and except for its inclusion in the Response Document, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

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

## II. BACKGROUND AND TERMS OF THE OFFER

The Offer is made by Realord Asia Pacific, for and on behalf of the Offeror, and is extended to all Shareholders on the following basis:

For each Share.....HK\$0.3935 in cash

As disclosed in the Offer Document, the Final Offer Price is HK\$0.3935 per Share after the upward adjustment set out in the Second Joint Announcement.

As disclosed in the 2020 Annual Report and the 2020 Interim Report, the February 2020 NAV and the unaudited consolidated net asset value attributable to the Shareholders as at 31 August 2020 were approximately HK\$142.6 million and HK\$59.3 million, respectively, representing the equivalent of approximately HK\$0.135 and HK\$0.056 per Share, which were calculated based on 1,053,519,360 Shares (being the number of Shares then in issue other than the Shares held by the Sincere Companies as at 29 February 2020 and 31 August 2020 <sup>Note</sup>).

*Note:* As set out in the Offer Document, in arriving the Group's consolidated net asset value attributable to the Shareholders, the number of the Shares, being 260,443,200 Shares, held by the Sincere Companies, being accounted for as subsidiaries of the Company, was excluded from the total number of issued Shares for calculating the net assets per Share attributable to the Shareholders as the value attributable to such number of Shares held by the Sincere Companies is eliminated upon consolidation of the Group in arriving at the Group's audited consolidated net assets attributable to the Shareholders. This calculation is consistent with the calculation of the earnings per Share in the audited financial statements of the Company. This calculation also applies to other parts in this letter regarding the Group's consolidated net asset value attributable to the Shareholders (unless prescribed otherwise).

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## LETTER FROM YUE XIU CAPITAL

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As at the Latest Practicable Date, there were 1,313,962,560 Shares in issue and no outstanding option, derivative, warrant or security which is convertible or exchangeable into Shares. On this basis, the total cash consideration payable by the Offeror under the Offer will be approximately HK\$517,044,267.

For further details on the terms of the Offer, please refer to the Offer Document and the accompanying Form of Acceptance.

### III. PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation with respect to the Offer, we have taken into consideration the following principal factors and reasons:

#### 1. Information on and prospects of the Group

##### (a) Background and information on the Group

The Company is incorporated in Hong Kong with limited liability and the issued shares of which are listed and traded on the Main Board of the Stock Exchange. The Group is principally engaged in the operations of department stores, securities trading and the provision of general and life insurances.

##### (b) Financial information of the Group

The table below summarises the key consolidated financial information of the Company extracted from the 2019 Annual Report, the 2020 Annual Report and the 2020 Interim Report:

##### *Financial results*

	Year ended 28 February 2018 ("FY2018")  (audited) HK\$'000	Year ended 28 February 2019 ("FY2019")  (audited) HK\$'000	Year ended 29 February 2020 ("FY2020")  (audited) HK\$'000	Six months ended 31 August 2019 ("1H2019") (unaudited) (restated) HK\$'000	2020 ("1H2020") (unaudited) HK\$'000
Revenue	355,865	311,865	263,312	138,100	81,756
Loss before taxation	(92,862)	(134,727)	(149,240)	(83,192)	(72,298)
Loss attributable to the Shareholders	(90,497)	(132,068)	(147,364)	(81,948)	(71,885)

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## LETTER FROM YUE XIU CAPITAL

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### *FY2019 compared to FY2018*

#### (i) Revenue

Revenue of the Group decreased by approximately 12.4% from approximately HK\$355.9 million for FY2018 to approximately HK\$311.9 million for FY2019. As stated in the 2019 Annual Report, such decrease was mainly due to the decrease in sales of the department store operations caused by the combination of the China-United States trade war and the unreasonably warm winter. The unreasonably warm winter has caused a drop in demand for thick and warm keeping clothing, heaters and bedding products.

#### (ii) Net loss attributable to the Shareholders

The Group recorded a net loss attributable to the Shareholders of approximately HK\$132.1 million for FY2019, representing an increase in loss of approximately 46.0% as compared with the that of approximately HK\$90.5 million for FY2018. As stated in the 2019 Annual Report, the increase in loss was mainly due to (i) the decrease in gross profit of the department store operations due to the unreasonably warm winter which resulted in a quiet end-of-year sales period; (ii) the impairment loss on the Group's property, plant and equipment due to the operating losses in department store operations; and (iii) the increase in net realised and unrealised losses in the Group's investment in financial assets at fair value through profit or loss.

### *FY2020 compared to FY2019*

#### (i) Revenue

Revenue of the Group decreased by approximately 15.6% from approximately HK\$311.9 million for FY2019 to approximately HK\$263.3 million for FY2020. As stated in the 2020 Annual Report, such decrease was mainly due to the decrease in sales of the department store operations caused by the combination of the social and political incidents in Hong Kong since June 2019 and the COVID-19 epidemic since January 2020.

#### (ii) Net loss attributable to the Shareholders

The Group recorded a net loss attributable to the Shareholders of approximately HK\$147.4 million for FY2020, representing an increase in loss of approximately 11.6% compared with that of approximately HK\$132.1 million for FY2019. As stated in the 2020 Annual Report, the increase in loss was mainly due to (a) the decrease in revenue as discussed in (i) above; and (b) increase in impairment loss on the Group's right-of-use assets of approximately HK\$12.8 million as a result of sustained operating losses in department store operations.

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## LETTER FROM YUE XIU CAPITAL

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### *1H2020 compared to 1H2019*

#### (i) Revenue

Revenue of the Group decreased by approximately 40.8% from approximately HK\$138.1 million for 1H2019 to approximately HK\$81.8 million for 1H2020. As stated in the 2020 Interim Report, such decrease was mainly due to the decrease in sales of the department store operations caused by the COVID-19 epidemic since early 2020.

#### (ii) Net loss attributable to the Shareholders

The Group recorded a net loss attributable to the Shareholders of approximately HK\$71.9 million for 1H2020, representing a decrease in loss of approximately 12.2% as compared with that of approximately HK\$81.9 million for 1H2019. As stated in the 2020 Interim Report, the decrease in loss was mainly due to (i) the decrease in the department store segment loss from approximately HK\$54.0 million for 1H2019 to HK\$45.2 million for 1H2020; and (ii) the decrease in securities trading segment loss from approximately HK\$9.0 million for 1H2019 to approximately HK\$5.1 million for 1H2020.

### ***Financial position***

	As at 28 February 2018 <i>(audited)</i> HK\$'000	As at 28 February 2019 <i>(audited)</i> HK\$'000	As at 29 February 2020 <i>(audited)</i> HK\$'000	As at 31 August 2020 <i>(unaudited)</i> HK\$'000
Total assets	459,587	399,189	625,915	575,212
Total liabilities	254,755	336,533	450,734	484,057
Net assets	204,832	62,656	175,181	91,155
Net assets attributable to the Shareholders	168,332	28,544	142,614	59,285
Net current assets/(liabilities)	152,176	14,990	(111,951)	(110,866)

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## LETTER FROM YUE XIU CAPITAL

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The consolidated net assets of the Group attributable to the Shareholders decreased from approximately HK\$142.6 million as at 29 February 2020 to approximately HK\$59.3 million as at 31 August 2020, which was mainly due to (i) the net losses recorded for 1H2020 as mentioned above; and (ii) the revaluation deficit of leasehold land and owned buildings of approximately HK\$12.8 million during the period. The Group recorded net current liabilities of approximately HK\$111.9 million and HK\$110.9 million as at 29 February 2020 and 31 August 2020, respectively. The Group's gearing ratio increased from approximately 112% as at 29 February 2020 to approximately 429% as at 31 August 2020 mainly due to the increase in interest-bearing bank borrowings and other loans.

As at 31 August 2020, unaudited consolidated net assets per Share attributable to the Shareholders was approximately HK\$0.056 which was calculated based on 1,053,519,360 Shares (being the number of Shares then in issue other than the Shares held by the Sincere Companies as at 31 August 2020).

**(c) *Prospects of the Group***

The Group is engaged in the operations of department stores, securities trading and the provision of general and life insurances. Overall, its revenue derived from the department store operations represented approximately 99.4%, 99.7%, 99.9% and 99.4% of the total revenue of the Group for the three financial years ended 29 February 2020 and the six months ended 31 August 2020, respectively.

As disclosed in the 2020 Annual Report, FY2020 was one of the most difficult years for the Hong Kong's retail market. The social and political incidents in Hong Kong since June 2019 had caused the Company to close its stores for more than 400 business hours. Furthermore, since January 2020, due to the communities outbreak of the COVID-19 pandemic, social distancing policies and various other measures have been recommended and implemented by the Hong Kong Government in order to contain the virus crisis. This has resulted in the number of visitors from both mainland China and overseas to drop by more than 90% in February 2020 as compared to February 2019 according to the visitor arrival statistics from the Hong Kong Tourism Board. In addition, the on-going threat of China-United States trade war has created uncertainty to both local and global markets and dampened the consumer sentiment. As a result, the retail business environment in Hong Kong has been significantly weakened.

It was also noted that during the course of 2020, a number of locally owned and international branded retail businesses, covering a broad product segments, have announced significant numbers of store closures.

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## LETTER FROM YUE XIU CAPITAL

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Against this background, the impact of the drop in revenue was mitigated by the Company's cost saving measures, such as reduction of part time headcount and successful negotiation of rental concessions. As set out in the 2020 Interim Report, following the stabilisation of COVID-19 infection cases and the easing of the social distancing policies implemented by the Hong Kong Government, the foot traffic for the Company's stores had gradually recovered. Nevertheless, given that the COVID-19 pandemic has not yet come to an end, the operating environment remains challenging and uncertain. In this regard, it is expected that the business recovery of the Group is still subject to short-term uncertainties such as the availability of further business relief measures to be offered by the government, the development of the pandemic, as well as the financial support to be provided by the Offeror as mentioned in the section headed "1. Information on and prospects of the Group — (e) "Recent update on the Facility" below in this letter.

Taking into account of the above, the Directors are of the view that the department store operations would be challenging in the near future, but they are still cautiously optimistic about the performance of the core department stores in the coming years.

With regard to the insurance business of Sincere II and Sincere LA, your attention is drawn to the paragraph headed "Sincere II and Sincere LA" in the Letter from the Board and the section headed "Letter from Altus Capital" in the Offer Document (the "**Altus Letter**"). In particular, the Altus Letter stated that the existing insurance policies are currently being run off in accordance with the Action Plan (as defined in the Altus Letter). The Altus Letter also stated that the Insurance Authority has a policy with regard to authorised insurers which are in run-off, to require that the run-off be discharged in an orderly fashion and then for the authorisation of the insurer to be withdrawn.

As further stated in the Altus Letter, the Offeror has given a written undertaking to the Insurance Authority that upon and subject to becoming a controller of Sincere LA and Sincere II, to exercise its control over Sincere LA and Sincere II so as to procure Sincere LA and Sincere II to comply with the Action Plan. The Offeror has not expressed any intention or plan to reactive or expand the businesses of Sincere LA and Sincere II.

The Group recorded insignificant revenue from insurance business in the recent accounting periods:

Accounting periods (Year/Period)	Revenue (HK\$)
Year ended 28 February 2019 ( <i>Audited</i> )	67,000
Year ended 29 February 2020 ( <i>Audited</i> )	7,000
Six months ended 31 August 2020 ( <i>Unaudited</i> )	2,000

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## LETTER FROM YUE XIU CAPITAL

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It is recognised that the application and the approval of new insurance licenses is a lengthy process. To the extent that the Offeror wishes to utilise the existing licenses and activate the insurance business of the Group, it would entail further investment costs to rebuild the business, time and execution risks. The Company's audited consolidated financial statements have not incorporated or recognised any potential long-term value that may be attributable to the Group's insurance licenses.

The Offeror has stated in the Offer Document its intention to continue the Group's existing principal business. For further details of the Offeror's intention on the Company, please refer to the section headed "2. Information on the Offeror and its intention on the Company — (b) The Offeror's intention on the Company" below in this letter.

***(d) Recent update on the Deed***

On 29 October 2020, the Company announced that Win Dynamic had executed the Deed in favour of the Company at no consideration. Pursuant to the Deed, Win Dynamic has irrevocably undertaken to the Company to give to the Company the sum falling to be paid by the Offeror to Win Dynamic upon its acceptance of the Offer relating to all the 662,525,276 Shares held by it, which is expected to amount to approximately HK\$260.4 million (after deducting Win Dynamic's ad valorem stamp duty). As disclosed in the announcement of the Company dated 29 October 2020, the Company at that time intended that this gift from Win Dynamic, when received, will be applied as working capital of the Group.

On 4 February 2021, the Company announced (the "**4 February 2021 Announcement**") that the Board had received a letter from Win Dynamic dated 3 February 2021 (the "**WD Letter**") stating the Deed is null and void and cancelled with immediate effect, for the reason that it was executed by Win Dynamic under undue influence and duress, given without separate legal representation or proper advice, and is an undervalue transaction pursuant to section 265D of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32 of the Laws of Hong Kong). According to the 4 February 2021 Announcement, the Board confirmed that Win Dynamic had not yet provided evidence in support of the assertions in the WD Letter or that it has any right to terminate the Deed. As stated in the 4 February 2021 Announcement, the Board (with the Dissenting Directors disagreeing) does not admit that the Deed is null or void or has been cancelled. In the interest of the Company and its Shareholders as a whole, the Board has resolved to include the review of the implication of the Purported Cancellation to the term of reference of the IBC. The IBC had thereafter sought separate legal advice in respect of the Purported Cancellation. In response to a letter from the legal adviser of the IBC to Win Dynamic requesting for evidence to support its reason for the Purported Cancellation, Win Dynamic responded in its reply letter that its professional advisers have advised it not to provide the Company any information relating to the Deed.



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## LETTER FROM YUE XIU CAPITAL

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The Offeror was informed, amongst other things, that the Board (except for the Dissenting Directors) (i.e. the IBC) does not admit that the Purported Cancellation is valid or effective. In response to an email from the legal adviser of the IBC to the legal adviser of the Offeror requiring the proceeds received by Win Dynamic from its sale of Shares to the Offeror to be paid to Sincere and not Win Dynamic, the legal adviser of the Offeror responded amongst other things to the effect that the Offeror will conduct the Offer, including but not limited to the settlement of the cash consideration for the valid acceptances of the Offer, in accordance with the terms and conditions of the Offer and in compliance with the Takeovers Code.

We have been advised by the management of the Company that the Deed was offered by Win Dynamics unilaterally, and that the existence or otherwise of the Deed is not one of the Pre-Conditions to the Offer and the Board (including the Dissenting Directors) is therefore of the view that the Purported Cancellation shall not impact on the Offer made by the Offeror. As at the Latest Practicable Date, save for the Deed (which, as mentioned above, the Board does not admit is null or void or has been cancelled, but the Dissenting Directors consider null and void or cancelled), there is no other relevant understanding, agreement or arrangement between (i) the Company, its subsidiaries or associated companies on the one hand, and (ii) the Offeror and/or Win Dynamic or any person known to the Company to be acting in concert with the Offeror and/or Win Dynamic on the other hand.

Assuming Win Dynamic honours the Deed and transfers the net proceeds of approximately HK\$260.4 million (after deducting Win Dynamic's ad valorem stamp duty) as a gift to the Group (the "**Gift**") and the Group applies the net proceeds as working capital, the Company's net assets attributable to the Shareholders would hypothetically increase by approximately HK\$260.4 million as the net proceeds from the Gift would be recognised as asset of the Group. For illustrative purposes only, assuming the Gift was transferred as at 31 August 2020, the hypothetical net assets attributable to the Shareholders would have increased from approximately HK\$59.3 million to approximately HK\$319.7 million. The hypothetical net asset per Share attributable to the Shareholders would then be approximately HK\$0.303 (i.e. HK\$319.7 million divided by 1,053,519,360 Shares, being the number of Shares then in issue other than the Shares held by the Sincere Companies as at 31 August 2020). The Final Offer Price represents a premium of approximately 29.87% over such hypothetical net asset per Share attributable to the Shareholders.

On the other hand, as mentioned above, the Deed is not one of the Pre-Conditions to the Offer. In the event that the Deed is deemed null and void or cancelled by legal authorities, that would not have any impact to the current financial position of the Company or the Offer. The Group's net assets per Share attributable to the Shareholders would remain at approximately HK\$0.056 over which the Final Offer Price represents a premium of approximately 602.68%.



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## LETTER FROM YUE XIU CAPITAL

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Your attention is also drawn to the announcements of the Offeror dated 6 May 2021, 11 May 2021, 14 May 2021 and any future announcements which the Offeror and/or the Company may make in relation to, amongst other things, the updates on the Deed and the Purported Cancellation, including the legal proceedings instituted by the Offeror against Win Dynamic with respect to the Deed.

We are advised that, as at the Latest Practicable Date, Win Dynamic had not provided any evidence to substantiate the allegations that the Deed was executed under undue influence and duress and/or a transaction at an undervalue. We are not in the position to assess or express a view on the validity of the Deed and the Purported Cancellation. Shareholders are advised to exercise caution and closely monitor the latest development in relation to the Deed and the Purported Cancellation and assess the possible financial impact of the Gift to the Group.

*(e) Recent update on the Facility*

As stated in the 2020 Interim Report, the Group had obtained a term loan of HK\$80 million (“**HK\$80M Loan**”) (which was fully drawn) and a loan facility of HK\$70 million from Realord Finance.

As disclosed in the announcement of the Company dated 25 February 2021, in order to repay the HK\$80M Loan from Realord Finance and to finance the working capital of the Group, the Company entered into the Facility Agreement with the Lender on 18 February 2021. The Facility is secured by unencumbered assets of the Company and is repayable 18 months after drawdown, or on demand. On 19 February 2021, the Company repaid all the outstanding principal and interest of the HK\$80M Loan demanded by Realord Finance (with further interest to be repaid on demand) and would use the balance of the Facility for working capital.

As disclosed in the announcement of the Company dated 16 April 2021, a prior written consent would need to be obtained from the Lender if there is (in the opinion of the Lender) any change in the voting control of the Company as required under the debenture of the Facility. The Company had sought the Lender’s consent thereof. The Company was then informed by the legal advisers of the Lender in a letter that the Lender shall not grant the consent/confirmation and such decision shall not be withdrawn and at least not until 30 April 2021. In the said letter, it was also stated that for the avoidance of doubt, the letter does not imply granting of such consent/confirmation after 30 April 2021.

As further disclosed in the announcement of the Company dated 4 May 2021, on 3 May 2021, the Company was informed by the legal adviser of the Lender in a letter that the Lender demanded the Company, as a borrower, to make a repayment of the Facility, including the outstanding principal of HK\$150 million and the interest accrued on the outstanding principal for the period up to 5 May 2021 of approximately HK\$1.1 million, totaling approximately HK\$151.1 million before 5:00 p.m. on 6 May 2021. On the same day, the Company informed the Offeror regarding the Lender’s demand for full repayment of the Facility as well as the relevant repayment interest by 5 p.m. on 6 May 2021.

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## LETTER FROM YUE XIU CAPITAL

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The Offeror has disclosed the arrangements between the Offeror and the Company to facilitate the repayment of the Facility with the Lender in its announcements dated 5 May 2021, 6 May 2021, 7 May 2021, 10 May 2021 and 12 May 2021. In particular, on 10 May 2021, the Company and the Offeror entered into the loan facility agreement (the “**Realord Loan Agreement**”) for a term loan facility of up to HK\$152.0 million to the Company (the “**Realord Loan Facility**”) and the Company drew down the full amount of the Realord Loan Facility for the repayment of the Facility on 12 May 2021. In light of the above, we consider that the entering into of the Realord Loan Agreement between the Company and the Offeror demonstrates the Offeror’s commitment to maintain the financial stability of the Company.

As further disclosed in the announcement of the Company dated 13 May 2021, the Company has arranged for the repayment of the Facility together with interest accrued thereon under the Facility Agreement and all amounts payable thereunder as full and final settlement on 12 May 2021. Such repayment was funded by the provision of the Realord Loan Facility and for the amount in excess of HK\$152.0 million, by the Company’s internal resources.

Based on the above refinancing arrangement of the Facility with the Realord Loan Facility and our understanding, it appears that the entering into of the Realord Loan Agreement has no material adverse impact on the indebtedness position and financial conditions of the Group as we noted that (i) the Realord Loan Facility will become free of any security over the assets of the Group upon the Offeror becoming entitled to exercise, or control the exercise of, more than 50% of the voting power at any general meeting of the Company, and having appointed the majority of the members of the Board; (ii) the Realord Loan Facility carries a lower interest rate than the Facility; and (iii) the amount of the Realord Loan Facility drawn down by the Company is comparable to the amount of the Facility repaid by the Group.

## 2. **Information on the Offeror and its intention on the Company**

### ***(a) The Offeror and its controlling shareholders***

As disclosed in the Offer Document, the Offeror is a company incorporated in Bermuda with limited liability and the shares of which are listed and traded on the Main Board of the Stock Exchange. MHL was the controlling shareholder of the Offeror beneficially interested in 1,073,160,000 Realord Shares, representing approximately 74.62% of the issued share capital of the Offeror. MHL is owned as to 70% by Dr. Lin and as to 30% by Madam Su.

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## LETTER FROM YUE XIU CAPITAL

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The Realord Group is principally engaged in (i) provision of financial printing, digital printing and other related services; (ii) sales of hangtags, labels, shirt paper boards and plastic bags principally to manufacturers of consumer products; (iii) distribution and sales of motor vehicle parts; (iv) provision of corporate finance advisory, asset management, securities brokerage services and margin financing; (v) property investment and development and commercial operation; and (vi) environmental protection industry. The Realord Group has been actively engaging in property investment and development and urban renewal business in Shenzhen, the PRC. Such properties include Realord Mall, which is part of the “Realord Villa” located in Longhua District of Shenzhen, the PRC. It is a large-scale all-in-one shopping mall with a gross floor area of approximately 51,039 sq.m. integrating local amenities, entertainment and leisure, parent-child education, and specialty food and beverage experience.

As disclosed in the Offer Document, leveraging the existing platform and resources of the Realord Group, the Realord Group is confident about the future development of the department store operation after it taking control and management of the Company

***(b) The Offeror’s intention on the Company***

As stated in the Offer Document, it is the intention of the Offeror to continue with the Group’s existing principal business. The Offeror will conduct a detailed review on the financial position, business and operations of the Group in order to formulate a long-term strategy for the Group and explore other business or investment opportunities for enhancing its future development and strengthening its revenue bases.

The Offeror reserves the right to make any changes it deems necessary or appropriate to the Company’s business and operations to enhance the value of the Company and strengthen its revenue. As stated in the Offer Document, save for the above, the Offeror had no plan, and had not engaged in any discussion or negotiation, on any injection of any assets or businesses into the Group, and had no intention to discontinue the employment of the employees of the Group by reason of the Offer (other than the proposed change of the Board and senior management as further mentioned below), or to dispose of or re-deploy the assets of the Group.

It is also the Offeror’s intention to preserve the brand heritage of “Sincere”, to support the operation and improve the liquidity position of the Group, to enhance the diversity of the Board and senior management for long-term growth and to retain talents of the Group. The Offeror will also make any changes it deems necessary or appropriate to the Company’s business and operations to enhance the value of the Company and strengthen its revenue. The Offeror will also closely follow any subsequent developments that may significantly impact the Group, and may revisit and adjust its intentions and plans where appropriate. Details of the Offeror’s intention above are set out in the Altus Letter in the Offer Document. In particular, we noted that the Offeror intends to:

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## LETTER FROM YUE XIU CAPITAL

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- (i) to preserve the brand heritage of “Sincere (先施) and rally the department store operations on the platform of the Realord Group;
- (ii) to support the operation and improve the liquidity position of the Group;
- (iii) to support the new Board after change of control to protect and safeguard the assets and interests of the Company against the Purported Cancellation by Win Dynamic relating to the Gift of approximately HK\$260.4 million to be given by Win Dynamic to the Company for its working capital use;
- (iv) to enhance the diversity of the Board and senior management for long-term growth; and
- (v) to retain the Group’s talents to continue their contribution to the Group and its stakeholders.

As further disclosed in the Offer Document, the Offeror intended to nominate three new executive Directors, two non-executive Directors, three independent non-executive Directors and one senior management. Amongst these nominated Directors, the Offeror will seek the Board’s facilitation to nominate and appoint Mr. Chan Chu Kin as a non-executive Director (the Offeror would re-designate Mr. Chan Chu Kin as an executive Director upon the close of the Offer) and Mr. Chung Chun Hung Simon as an independent non-executive Director, to the Board, with effect from the next Business Day immediately after the despatch of the Response Document in accordance with the Takeovers Code (subject to the necessary procedure required by the articles of association of the Company) in order to ensure smooth transition of the Board and management of the Company. The respective biographies the nominated Directors are set out in the Offer Document. According to the Letter from the Board, as at the Latest Practicable Date, (i) Mr. Eric KK Lo, Mr. Peter Tan, Mr. Charles M W Chan and Mr. Anders W L Lau intend to resign upon or after the Final Closing Date; and (ii) Mr. Philip K H Ma and Mr. King Wing Ma intend to remain on the Board.

As disclosed in the Offer Document, it is expected that the new Board and senior management team will be equipped with necessary expertise to execute the Offeror’s plan to enshrine the synergy between the Group and the Realord Group. Despite the proposed change of the board composition and the additional senior management member of the Company, the Offeror intended that the existing management and staff of the Company will be retained (other than the proposed change of the Board and senior management as mentioned above) to run the business operation of the Company and, together, contribute to the Company’s success in the future. We noted that the nominated executive Directors are management of the Offeror or its affiliates.

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## LETTER FROM YUE XIU CAPITAL

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As mentioned earlier in this letter and referred to in the Altus Letter, the Insurance Authority required Sincere LA and Sincere II to submit the Action Plan for the run-off of Sincere LA and Sincere II to ensure that all liabilities under their insurance policies are discharged and the interests of the policyholders of Sincere LA and Sincere II are adequately protected. As at the Latest Practicable Date, the Action Plan had been approved by the Insurance Authority and Sincere II and Sincere LA had been carrying out the Action Plan accordingly. On 16 April 2021 the Insurance Authority also notified the Offeror, MHL, Dr. Lin and Madam Su that the Insurance Authority has no objections (the “**IA No Objections**”) to the Offeror, MHL, Dr. Lin and Madam Su becoming a controller (within the meaning under section 13B(1) of the Insurance Ordinance) of Sincere LA and Sincere II and the Offeror has committed to the Insurance Authority that it will exercise its control over Sincere LA and Sincere II so as to procure that Sincere LA and Sincere II will comply with the Action Plan. The IA No Objections will be valid for six months from 16 April 2021 and will lapse if the Offeror, MHL, Dr. Lin and Madam Su have not become a controller (within the meaning under section 13B(1) of the Insurance Ordinance within the said period. For further details regarding the IA No Objections, please refer to the paragraph headed “Sincere II and Sincere LA” in the Letter from the Board.

As confirmed with the management of the Group, as at the Latest Practicable Date, the Group was not in discussion with any external parties in relation to the disposal of its insurance business. In the absence of any plan or expressed intention to reactivate the Group’s insurance business, we are unable to comment on the future prospect of the Group’s insurance businesses or any potential future value that may be ascribed to the insurance licenses.

**(c) Maintenance of the listing status of the Company**

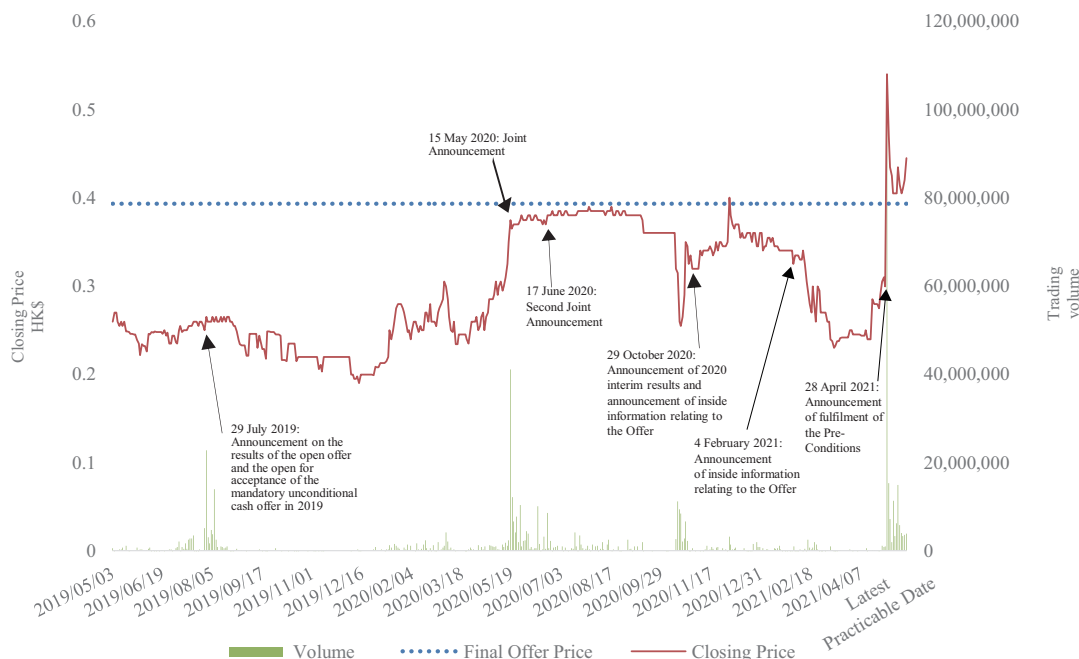
As set out in the Offer Document, the Offeror intends the Company to remain listed on the Main Board of the Stock Exchange after the close of the Offer. The Realord Directors and the new Directors nominated by Realord for appointment to the Board have jointly and severally undertaken to the Stock Exchange to take appropriate steps to ensure that sufficient public float exists for the Shares.

The Stock Exchange has stated that if, at the close of the Offer, less than the minimum prescribed percentage applicable to the Company, being 25%, of the Shares are held by the public or if the Stock Exchange believes that (i) a false market exists or may exist in the trading of the Shares; or (ii) there are insufficient Shares held in public hands to maintain an orderly market, it will consider exercising its discretion to suspend trading in the Shares until the prescribed level of public float is restored.

### 3. The Final Offer Price

#### (a) Historical price performance of the Shares

The chart below illustrates the daily closing price per Share for the period commencing on 3 May 2019, being one year before the Last Trading Day, up to and including the Latest Practicable Date (the “Review Period”):



Source: website of the Stock Exchange

During the Review Period, the highest and lowest closing price of the Shares as quoted on the Stock Exchange were HK\$0.54 on 29 April 2021 and HK\$0.19 on 12 December 2019, respectively. The average closing price of the Shares during the Review Period was approximately HK\$0.29.

Save for the closing price of the Shares: (i) of HK\$0.40 on 2 December 2020 which is after the Last Trading Day; (ii) in the range of HK\$0.405 to HK\$0.54 during 29 April 2021 and up to the Latest Practicable Date, the Final Offer Price of HK\$0.3935 per Share is above the closing price of the Shares for all trading days during the Review Period. It represents a premium of approximately 35.7% over the average closing price of the Shares of approximately HK\$0.29 during the Review Period.

The closing price of the Shares traded within a range of HK\$0.19 to HK\$0.27 from the beginning of the Review Period to 27 December 2019, which was generally in line with the decline in the Hang Seng Index over the same period of time. The closing price of the Shares then showed a general upward trend from HK\$0.208 as at the beginning of year 2020 until the Last Trading Day on which the Shares closed at HK\$0.35. The closing price of the Shares decreased from HK\$0.315 on 16 October 2020 to HK\$0.26 on 19 October 2020. Based on the available public information and our enquiry with the management of the Group, we were not aware of any reasons for such price decrease.



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## LETTER FROM YUE XIU CAPITAL

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The Company published its interim results announcement for 1H2020 and announcement of inside information relating to the Offer on 29 October 2020, pursuant to which Win Dynamic, the controlling shareholder of the Company interested in approximately 50.42% of the Shares in issue, executed the Deed in favour of the Company at no consideration. Subsequent to the publication of the announcements on 29 October 2020, the closing price of the Shares were in the range of HK\$0.32 to HK\$0.4 from 29 October 2020 up to including 3 February 2021. Subsequent to the publication of the 4 February 2021 Announcement, pursuant to which the Board had received the WD Letter, the closing price of the Shares assumed a generally downward trend until 28 April 2021. Following the publication of the announcement by the Offeror stating that all the Pre-Conditions have been fulfilled or waived (as the case may be) on 28 April 2021, the closing price of the Shares surged to HK\$0.54 on 29 April 2021, and was in the range of HK\$0.405 and HK\$0.54 during 29 April 2021 and up to the Latest Practicable Date.

The Final Offer Price of HK\$0.3935 per Share represents a discount of approximately 11.6% to the closing price of the Shares on the Latest Practicable Date. There is no assurance that the closing price of the Shares will remain at the current level or continue to rise after the close of the Offer.

**(b) *Final Offer Price comparisons***

The Final Offer Price of HK\$0.3935 per Share represents:

- (i) an increase of approximately 3.39% as compared to the Initial Offer Price of HK\$0.3806 per Share;
- (ii) a premium of approximately 4.93% to the closing price of HK\$0.375 per Share as quoted on the Stock Exchange on 18 May 2020, being the first trading day after the publishing of the Joint Announcement;
- (iii) a premium of approximately 12.43% over the closing price of HK\$0.35 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (iv) a premium of approximately 24.53% over the average of the closing prices per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day of approximately HK\$0.316;
- (v) premium of approximately 28.18% over the average of the closing prices per Share as quoted on the Stock Exchange for the last 10 consecutive trading days up to and including the Last Trading Day of approximately HK\$0.307;

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## LETTER FROM YUE XIU CAPITAL

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- (vi) a premium of approximately 43.09% over the average of the closing prices per Share as quoted on the Stock Exchange for the last 30 consecutive trading days up to and including the Last Trading Day of approximately HK\$0.275;
- (vii) a premium of approximately 191.48% over the audited February 2020 NAV of approximately HK\$0.135 per Share calculated based on the audited February 2020 NAV of approximately HK\$142.6 million as extracted from the 2020 Annual Report and 1,053,519,360 Shares (being the number of Shares then in issue other than the Shares held by the Sincere Companies as at 29 February 2020);
- (viii) a premium of approximately 602.68% over the unaudited net assets attributable to the Shareholders of approximately HK\$0.056 per Share calculated based on the unaudited net assets attributable to the Shareholders as at 31 August 2020 of approximately HK\$59.3 million as extracted from the 2020 Interim Report and 1,053,519,360 Shares (being the number of Shares then in issue other than the Shares held by the Sincere Companies as at 31 August 2020); and
- (ix) a discount of approximately 11.6% to the closing price of HK\$0.445 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

In summary, except for the period from 29 April 2021 and up to the Latest Practicable Date, the Final Offer Price of HK\$0.3935 per Share generally represents a premium over the closing prices or average closing prices of the Shares for the aforementioned different dates or periods.

The Final Offer Price also represents premiums of approximately 191.48% and 602.68% over the consolidated net assets per Share attributable to the Shareholders as at 29 February 2020 and 31 August 2020 of approximately HK\$0.135 and HK\$0.056, respectively (calculated based on 1,053,519,360 Shares, being the number of the Shares then in issue other than the Shares held by the Sincere Companies as at 29 February 2020 and 31 August 2020).

**(c) *Trading liquidity***

Set out below are the total monthly trading volumes of the Shares and the percentages of the relevant total monthly trading volume to the total number of issued Shares and the number of Shares in public hands during the Review Period:



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## LETTER FROM YUE XIU CAPITAL

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	Number of trading days	Total monthly trading volume of the Shares	Total monthly trading volume of the Shares as % of total number of issued Shares <sup>1</sup>	Total monthly trading volume of the Shares as % of the Shares in public hands <sup>2</sup>
<b>2019</b>				
May	20	5,459,880	0.59%	1.43%
June	18	3,213,600	0.35%	0.84%
July	22	51,270,840	3.90%	13.41%
August	22	33,440,705	2.55%	8.75%
September	21	1,549,400	0.12%	0.41%
October	21	281,000	0.02%	0.07%
November	21	301,000	0.02%	0.08%
December	20	2,258,000	0.17%	0.59%
<b>2020</b>				
January	20	9,999,600	0.76%	2.62%
February	20	13,235,872	1.01%	3.46%
March	22	12,443,000	0.95%	3.25%
April	19	15,517,600	1.18%	4.06%
May	11	92,459,200	7.04%	24.19%
June	21	41,921,040	3.19%	10.97%
July	22	17,908,450	1.36%	4.68%
August	21	14,243,000	1.08%	3.73%
September	22	5,121,800	0.39%	1.34%
October	18	46,575,000	3.54%	12.18%
November	21	6,615,104	0.50%	1.73%
December	22	13,192,400	1.00%	3.45%
<b>2021</b>				
January	20	6,551,000	0.50%	1.71%
February	17	9,633,000	0.73%	2.52%
March	23	2,478,000	0.19%	0.65%
April	19	125,034,048	9.52%	32.71%
May (up to and including the Latest Practicable Date)	11	66,023,430	5.02%	17.27%
Average daily trading volume during the Review Period		1,207,947	0.09%	0.32%

*Source: website of the Stock Exchange*

*Notes:*

1. Based on the total number of issued Shares as at the end of the relevant month.
2. The total number of the Shares in public hands was determined as the total number of issued Shares as at the Latest Practicable Date minus 922,968,476 Shares and 8,703,728 Shares held by the Offeror and the Directors, respectively.

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## LETTER FROM YUE XIU CAPITAL

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As illustrated in the above table, the liquidity of the Shares was generally low during the Review Period. Total monthly trading volume of the Shares ranged from approximately 0.02% to 1.57% of the total number of issued the Shares, and from approximately 0.07% to 5.39% of the total number of issued Shares in public hands (excluding the unusual high trading volumes in July to August 2019, in May to June 2020, in October 2020, April 2021 and May 2021, which seemingly correlated to the open offer and mandatory unconditional cash offer in 2019, the Joint Announcement in respect of the Offer in May 2020, the announcements in relation to updates of the Offer in October 2020 and the announcement of the Offeror in relation to fulfilment or waive (as the case may be) of the Pre-Conditions on 28 April 2021, respectively). The average daily trading volume of the Shares during the Review Period was approximately 1,207,947 Shares, representing approximately 0.09% of the total number of issued Shares, and approximately 0.32% of the total number of issued Shares in public hands.

Given the relatively low liquidity of the Shares, independent Shareholders should note that if they wish to sell a significant number of the Shares within a short period in the market, it is possible that any significant selling may exert downward pressure to the market price of the Shares. The higher level of trading volume subsequent to the Joint Announcement may not be sustainable after the Offer Period and accordingly, the Offer provides an opportunity for the independent Shareholders to dispose of their shareholdings in its entirety at the Final Offer Price. The independent Shareholders who intend to dispose of their Shares should accept the Offer if they are not able to sell the Shares in the market at a price higher than the Final Offer Price.

**(d) Market comparables**

As set out in the “Five-year financial summary” in the 2020 Annual Report, the Group has been loss making since the financial year ended 29 February 2016. There is no recent profit record to allow assessment on its earning history. In assessing the fairness and reasonableness of the Final Offer Price, we have conducted an analysis by comparing the implied price-to-book ratio (“**P/B Ratio**”) of the Company based on the Final Offer Price with the P/B Ratios of the comparable companies.

We have identified three comparable companies based on the following criteria: (i) they are companies listed on the Main Board of the Stock Exchange; (ii) they are principally engaged in the operations of department stores with more than 50% of the their total revenue generated from such operations; (iii) they operate department stores and generate revenue in Hong Kong; and (iv) they operate department stores under their own brand names. The list of comparable companies set out below is exhaustive based on the above criteria and despite the sample size of the comparable companies is relatively small, we consider that it is sufficient for us to form a view on the fairness and reasonableness of the Final Offer Price because the criteria for selection of comparable companies were intended to be specific so as to allow a meaningful direct comparison of the P/B Ratios between the Company and these comparable companies.

## LETTER FROM YUE XIU CAPITAL

Details of the comparable companies based on the abovementioned criteria are summarised below:

Comparable Companies (Stock Code)	Brand name(s) of the department stores	Department store operating location	Revenue for the latest full financial year (HK\$'million)	Net profit/(loss) attributable to shareholders of the company for the latest full financial year (HK\$'million)	Market capitalisation as at the Latest Practicable Date <sup>1</sup> (HK\$'million)	Share price as at the Latest Practicable Date (HK\$)	Net assets per share attributable to shareholders <sup>2</sup> (HK\$)	P/B Ratio <sup>3</sup> (times)
Lifestyle International Holdings Limited (1212.HK)	Sogo	Hong Kong	1,993	139	9,357	6.23	2.56	2.43
Wing On Company International Limited ("Wing On") (289.HK)	Wing On	Hong Kong	1,188	(456)	5,136	17.60	65.62	0.27
Henderson Investment Limited (97.HK)	Citistore/UNY HK	Hong Kong	1,829	127	1,249	0.41	0.44	0.93
							Average	1.21
							Maximum	2.43
							Minimum	0.27
<b>The Company</b> (as implied by the Final Offer Price)	Sincere	Hong Kong	263	(147)	585	0.3935 <sup>4</sup>	0.056 <sup>5</sup>	7.03 <sup>6</sup>

Sources: Bloomberg and website of the Stock Exchange

Notes:

1. Market capitalisation of the Company and the comparable companies is calculated based on the closing share price and number of shares in issue at the Latest Practicable Date.
2. Net assets per share attributable to shareholders of the comparable companies are calculated based on (i) the net assets attributable to shareholders of the comparable companies as set out in their respective latest financial report available as at the Latest Practicable Date; and (ii) the number of issued shares of the comparable companies as at the respective year/period end.
3. P/B Ratios of the comparable companies are calculated based on (i) the respective net assets per share attributable to shareholders of the comparable companies; and (ii) the respective closing share price of the comparable companies as at the Latest Practicable Date.

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## LETTER FROM YUE XIU CAPITAL

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4. The Final Offer Price of HK\$0.3935 per Share was used for the determination of its P/B Ratio.
5. The consolidated net assets per Share attributable to the Shareholders as at 31 August 2020 was approximately HK\$0.056 (calculated based on 1,053,519,360 Shares, being the number of Shares then in issue other than the Shares held by the Sincere Companies as at 31 August 2020).
6. The implied P/B Ratio of the Company based on the Final Offer Price and the consolidated net assets of approximately HK\$0.056 per Share attributable to the Shareholders as at 31 August 2020 is 7.03 times.

As set out in the table above, P/B Ratios of the comparable companies range from approximately 0.27 to 2.43 times, with an average of approximately 1.21 times. The implied P/B Ratio of the Company based on the Final Offer Price and the consolidated net asset value of the Group attributable to the Shareholders as at 31 August 2020 is approximately 7.03 times. All the three comparable companies have returned significantly higher revenue, and two of which are profit making for their respective latest full financial year as compared with the successive loss making results of the Group in recent years. Although Wing On recorded a loss attributable to its shareholders for the most recent financial year, we noted that it was profit making for its previous financial year. The implied P/B Ratio of the Company of approximately 7.03 times far exceeds the maximum P/B ratio and average P/B ratio of the comparable companies.

For independent Shareholders' information, if the terms of the Deed are complied with, the Company will receive a sum of approximately HK\$260.4 million by way of a gift from Win Dynamic. This would significantly increase the post-Offer net asset position and liquidity of the Group. For the purpose of our analysis, we have not taken into account of the receipt of this disputed amount in the P/B Ratios comparison analysis above. In the hypothetical case that the Company can successful recover the amount under the Deed in full, the consequential P/B Ratio of the Company would be approximately 1.30 times which is higher than the average of approximately 1.21 times in the above analysis of comparable companies.

#### IV. RECOMMENDATION

Having considered the above principal factors, reasons and analysis and in particular:

1. the Group recorded losses for consecutive financial years since the financial year ended 28 February 2014 with an audited net loss attributable to the Shareholders of approximately HK\$147.4 million for the year ended 29 February 2020 and an unaudited net loss attributable to the Shareholders of approximately HK\$71.9 million for the six months ended 31 August 2020;

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## LETTER FROM YUE XIU CAPITAL

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2. the revenue contributed by the department store operations represented approximately 99.4%, 99.7%, 99.9% and 99.4% of the total revenue of the Group for the three financial years ended 29 February 2020 and for the six months ended 31 August 1H2020, respectively. The Offeror has stated its intention to continue the Group's existing principal business with no current plan, discussion or negotiation on any injection of any asset or business into the Group. Unless otherwise notified by the Offeror of any plan for a significant change to the businesses of the Group, we assume that the department store operations of the Group shall continue to serve as the core business and mainstream revenue source of the Group, which is facing a challenging business environment and outlook as discussed in the section headed "1. Information on and prospects of the Group — (c) Prospects of the Group" above in this letter;
3. the Final Offer Price of HK\$0.3935 per Share (i) represents a premium of approximately 12.43% over the price as at the Last Trading Day; (ii) represents a premium of approximately 191.48% and 602.68% over the consolidated net assets per Share attributable to the Shareholders as at 29 February 2020 and 31 August 2020, respectively; and (iii) is above the closing prices of Shares on most of the trading days within the Review Period;
4. there is no guarantee that the share price of Shares will sustain at a level close to the Final Offer Price after the Offer Period;
5. the liquidity of the Shares was generally low during the Review Period and as such, independent Shareholders who own a significant number of Shares may not be able to realise their investments in the Shares at a price higher than or close to the Final Offer Price in the event that they decide to dispose their shareholdings on market; and
6. the implied P/B Ratio of the Company based on the Final Offer Price far exceeds the maximum P/B Ratio and the average P/B Ratio of the comparable companies,

we consider the terms of the Offer to be fair and reasonable and accordingly, we advise the IBC to recommend the independent Shareholders to accept the Offer.

Please note, however, that the Shares have been traded at or occasionally above the Final Offer Price lately. Accordingly, independent Shareholders are reminded to carefully monitor the market price and the liquidity of Shares during and before the end of the Offer Period, and having regard to their own circumstances, consider selling their Shares in the open market, if the net proceeds after deducting all the relevant transaction costs as obtained from such disposal of the Shares would be higher than the net proceeds to be received under the Offer.

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## LETTER FROM YUE XIU CAPITAL

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Independent Shareholders who are attracted by the longer-term prospects of the Group under the future control by the Offeror, and the consequential improvement in the financial position of the Group by virtue of the implementation of the Deed (if successfully enforced), or any possible business re-activation (including any value that can be generated from possible business reactivation or disposal of the Group's insurance business), diversification, or new business direction that may be introduced by the Offeror after completion of the Offer, may consider retaining some or all of their Shares.

Independent Shareholders should note that the Company has announced that it shall hold a Board meeting on 28 May 2021, for the purpose of considering and approving, among other matters, the annual results of the Company and its subsidiaries for the year ended 28 February 2021 and its publication. Based on this scheduled announcement, we shall confirm our recommendation to, or update any variation thereof with the IBC. We understand that the Company shall make an appropriate update announcement on or before the Final Closing Date of 3 June 2021 if necessary.

Yours faithfully,  
For and on behalf of  
**Yue Xiu Capital Limited**

**Ambrose Lam**  
*Responsible Officer*

**Kenneth Sit**  
*Responsible Officer*

*Mr. Ambrose Lam is a licensed person registered with the Securities and Futures Commission and a responsible officer of Yue Xiu Capital Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has over 30 years of experience in corporate finance industry.*

*Mr. Kenneth Sit is a licensed person registered with the Securities and Futures Commission and a responsible officer of Yue Xiu Capital Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has over 16 years of experience in corporate finance industry.*

**1. FINANCIAL SUMMARY OF THE GROUP**

The following is a summary of the financial information of the Group for each of the three years ended 28 February 2018 and 2019 and 29 February 2020 as extracted from the Company's annual reports and for the six months ended 31 August 2019 and 2020 as extracted from the Company's interim report for the six months ended 31 August 2020. The consolidated financial statements of the Group for each of the years ended 28 February 2018 and 2019 and 29 February 2020 were audited by Ernst & Young. The interim report is unaudited. As stated in the independent auditor's report contained in the 2020 Annual Report, for the year ended 29 February 2020, Ernst and Young indicated, among others, the existence of a material uncertainty which may cast significant doubt about the ability of the Group to continue as a going concern. Set out below is the relevant extract:

“We draw attention to note 2.1 to the consolidated financial statements which indicates that the Group recorded a consolidated net loss for the year of HK\$149,253,000 during the year ended 29 February 2020, and the Group had net current liabilities of HK\$111,951,000. These conditions, along with other matters as set forth in note 2.1 to the consolidated financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the ability of the Group to continue as a going concern. Our opinion is not modified in respect of this matter.”

Save for the aforesaid, there is no other modified opinion, emphasis of matter or material uncertainty related to going concern contained in the auditors' report for each of the years ended 28 February 2018 and 2019 and 29 February 2020.

For each of the years ended 28 February 2018 and 2019 and 29 February 2020 and the six months ended 31 August 2020, no dividend was declared or paid. During the year ended 29 February 2020, the Group re-assessed its accounting for property, plant and equipment and elected to change the method of accounting and applied the revaluation model for leasehold land and owned buildings classified as property, plant and equipment, as the Group believes that the revaluation model provides more relevant information to the users of its financial statements. Accordingly, a revaluation surplus of leasehold land and owned buildings amounted to approximately HK\$136.2 million (2019: HK\$ Nil) was recognised through other comprehensive income during the year ended 29 February 2020. The Group recorded a revaluation deficit of leasehold land and owned buildings of approximately HK\$12.8 million for the six months ended 31 August 2020. Save for the aforesaid, the Group had no items of income or expenses which are material for each of the years ended 28 February 2018 and 2019 and 29 February 2020.

**APPENDIX I**
**FINANCIAL INFORMATION OF THE GROUP**

	Year ended 28 February 2018 <i>HK\$'000</i> <i>(audited)</i>	Year ended 28 February 2019 <i>HK\$'000</i> <i>(audited)</i>	Year ended 29 February 2020 <i>HK\$'000</i> <i>(audited)</i>	Six months ended 31 August 2019 <i>HK\$'000</i> <i>(unaudited)</i> <i>(restated)</i>	Six months ended 31 August 2020 <i>HK\$'000</i> <i>(unaudited)</i>
Revenue	<u>355,865</u>	<u>311,865</u>	<u>263,312</u>	<u>138,100</u>	<u>81,756</u>
Loss before tax	(92,862)	(134,727)	(149,240)	(83,192)	(72,298)
Income tax credit/(expense)	<u>(18)</u>	<u>(16)</u>	<u>(13)</u>	<u>1</u>	<u>–</u>
Loss for the year/period	<u>(92,880)</u>	<u>(134,743)</u>	<u>(149,253)</u>	<u>(83,191)</u>	<u>(72,298)</u>
Attributable to:					
Equity holders of the Company	(90,497)	(132,068)	(147,364)	(81,948)	(71,885)
Non-controlling interests	<u>(2,383)</u>	<u>(2,675)</u>	<u>(1,889)</u>	<u>(1,243)</u>	<u>(413)</u>
	<u>(92,880)</u>	<u>(134,743)</u>	<u>(149,253)</u>	<u>(83,191)</u>	<u>(72,298)</u>
Loss per share attributable to equity holders of the Company					
Basic and diluted	<u>HK\$(0.22)</u>	<u>HK\$(0.20)</u>	<u>HK\$(0.17)</u>	<u>HK\$(0.11)</u>	<u>HK\$(0.07)</u>
Total comprehensive income/(loss) for the year/period	<u>(74,621)</u>	<u>(149,725)</u>	<u>19,784</u>	<u>88,497</u>	<u>(84,026)</u>
Attributable to:					
Equity holders of the Company	(71,463)	(147,337)	21,329	89,079	(83,329)
Non-controlling interests	<u>(3,158)</u>	<u>(2,388)</u>	<u>(1,545)</u>	<u>(582)</u>	<u>(697)</u>
	<u>(74,621)</u>	<u>(149,725)</u>	<u>19,784</u>	<u>88,497</u>	<u>(84,026)</u>



**2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED 29 FEBRUARY 2020**

The following explain how you can find the audited consolidated financial statements of the Group for the year ended 29 February 2020 contained in the 2020 Annual Report, which was published on 16 June 2020 (<https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0616/2020061600471.pdf>). The 2020 Annual Report is posted on both the websites of the Company (<http://www.sincere.com.hk>) and the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)).

**(a) Consolidated income statement and consolidated statement of comprehensive income for the year ended 29 February 2020**

Please refer to pages 50 to 51 of 2020 Annual Report.

**(b) Consolidated statement of financial position as at 29 February 2020**

Please refer to pages 52 to 53 of 2020 Annual Report.

**(c) Consolidated statement of changes in equity for the year ended 29 February 2020**

Please refer to page 55 of 2020 Annual Report.

**(d) Consolidated statement of cash flows for the year ended 29 February 2020**

Please refer to pages 56 to 57 of 2020 Annual Report.

**(e) Notes to financial statements for the year ended 29 February 2020**

Please refer to pages 58 to 149 of 2020 Annual Report.

**3. INDEBTEDNESS**

As at 31 March 2021, being the latest practicable date for the purpose of this indebtedness statement, the Group had outstanding bank loans of approximately HK\$166.5 million, other loans of approximately HK\$153.3 million and lease liabilities of approximately HK\$98.1 million.

All of the Group's bank loans are secured. As at 31 March 2021, certain leasehold land and building with an aggregate carrying value of approximately HK\$172.0 million, certain marketable securities with an aggregate market value of approximately HK\$5.2 million, certain bank balances of approximately HK\$1.9 million and time deposits of approximately HK\$101.9 million were pledged to banks to secure bank loans and banking facilities granted to the Group.

As disclosed in the announcements of the Company dated 25 February 2021 and 31 March 2021, on 18 February 2021, the Company entered into the Facility with the Lender. As one of the conditions of the Facility, the Company executed a debenture which gives a (i) first fixed charge over the fixed property and assets of the Company; and (ii) first floating charge over the undertaking and all other property assets and rights of the Company, in favor of the lender to secure such other loan and loan facilities granted to the Group. Accordingly, as at 31 March 2021, among the other loans of approximately HK\$153.3 million, approximately HK\$150 million of them were secured and HK\$3.3 million of them were unsecured.

As at 31 March 2021, the Group had outstanding liabilities in respect of irrevocable letters of credit that amounted to HK\$14.3 million and bank guarantees given in lieu of property rental deposits of HK\$19.7 million.

Save as aforesaid and apart from intra-group liabilities and normal trade payables, the Group did not, at the close of business on 31 March 2021, being the latest practicable date for the purpose of this indebtedness statement, have any mortgages, charges, debts, securities issued and outstanding or agreed to be issued, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, guarantees or other material contingent liabilities.

#### 4. MATERIAL CHANGE

The Directors confirm that as at the Latest Practicable Date, save as disclosed below, there had been no material change in the financial or trading position or outlook of the Group since 29 February 2020, being the date to which the latest published audited consolidated financial statements of the Group were made up, up to and including the Latest Practicable Date:

- a. As disclosed in the interim report (the “**2020 Interim Report**”) of the Company for the six months ended 31 August 2020 (“**HY20**”), the Group’s department store operations (the “**Department Store Operation**”), same as other companies engaged in the retail business in Hong Kong, had been significantly affected by the COVID-19 pandemic since early 2020. The Department Store Operation recorded revenue of approximately HK\$81.3 million during HY20, dropped by about 40% against the six months ended 31 August 2019 (“**HY19**”) as people’s sentiment for going out and spending reduced leading to the decrease in store traffic in HY20. Deeper discounts and extended sales period were also offered leading to further decrease in department stores’ gross profit in HY20. The Group had put pro-active measures to reduce operating expenses. Together with the additional rental recession obtained from landlords and the receipt of government subsidies, the segment loss of the Department Store Operation had been reduced to approximately HK\$45.2 million in HY20 from approximately HK\$54.1 million in HY19;

- b. Also, as disclosed in the 2020 Interim Report, the Group's gearing ratio increased from approximately 112% as at 29 February 2020 to approximately 429% as at 31 August 2020 mainly due to the increase in interest-bearing bank borrowings and other loans. On 3 April 2020, the Company obtained an unsecured loan in the principal amount of HK\$80 million from Realord Finance. On 26 May 2020, the Company further obtained a non-revolving loan facility of up to HK\$70 million from Realord Finance to finance its working capital needs but no amount had been drawn down from such facility. In February 2021, in face of Realord Finance's demand for repayment of the entire loan facility of HK\$80 million within 7 days, the Company entered into the Facility with the Lender on 18 February 2021 in order to satisfy Realord Finance's demand for the repayment of the HK\$80 million loan facility, and to finance the working capital of the Group (details of which are disclosed in the announcements of the Company dated 25 February 2021 and 31 March 2021);
- c. Further, as disclosed in the 2020 Interim Report, in respect of the Group's business outlook, with the confirmed cases for the COVID-19 pandemic maintained at a moderate level and the ease of the social distancing policies implemented by the government previously, the foot traffic to the Company's department stores had gradually recovered. Nevertheless, given that the COVID-19 pandemic has not yet come to an end, and the risk of the mutated COVID-19 virus is impending, the operating environment remains challenging and uncertain. In this regard, it is expected that the business recovery of the Group is still subject to short-term uncertainties such as the availability of further business relief measures to be offered by the government, the development of the pandemic, as well as the financial support to be provided by the Offeror;
- d. As disclosed in the announcement issued by the Company dated 29 October 2020, in light of the operating and financial position of the Group and to improve the liquidity of the Group, Win Dynamic executed the Deed in favour of the Company at no consideration to give to the Company the net sale proceeds that Win Dynamic will be entitled to receive from Realord upon its acceptance of the Offer, which is expected to amount to approximately HK\$260,442,992 (after deducting Win Dynamic's ad valorem stamp duty). Later, as disclosed in the Company's announcement dated 4 February 2021, the Board received a letter from Win Dynamic dated 3 February 2021 stating Win Dynamic's declaration that the Deed is null and void and cancelled with immediate effect, for the reason that it was executed by Win Dynamic under undue influence and duress, given without separate legal representation or proper advice, and is an undervalue transaction pursuant to section 265D of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32 of the Laws of Hong Kong). As stated in the Company's announcement dated 4 February 2021, the Board (other than Mr. Philip K H Ma and Mr. Charles M W Chan, who also own and are directors of Win Dynamic) does not admit the Deed is null or void or has been cancelled; and the IBC had thereafter sought separate legal advice in respect of the Purported Cancellation;

- e. Meanwhile, as announced on 16 April 2021 by the Company, the Lender has decided not to grant the written consent for the change in the voting control of the Company as required under the debenture of the Facility. It is noted that failure to obtain the Lender's said consent when there is a change in the voting control of the Company would constitute an event of default under the debenture of the Facility. Also as announced by the Company on 4 May 2021, on 3 May 2021, the Company was informed by the legal adviser of the Lender in a letter that, among others, the Lender demands Sincere, as the borrower, to make a repayment of the Facility, including the outstanding principal of HK\$150,000,000 and the interest accrued on the outstanding principal for the period up to 5 May 2021 of HK\$1,117,808, totalling HK\$151,117,808, on 6 May 2021 before 5:00 p.m. The Company was unable to meet the repayment deadline and accordingly, an event of default has been triggered under the terms of the debenture of the Facility; and
- f. As stated in the announcements of the Offereor dated 5 May 2021, 6 May 2021, 9 May 2021, 10 May 2021 and 12 May 2021, amongst other matters, the Offeror subsequently proposed to the Company to extend a loan facility directly to the Company with security on substantially the same terms as the security provided under the Facility, for the purpose of repayment to the Lender of all the outstanding loan and interests accrued thereon. This loan facility was drawn down by the Company on 12 May 2021 and the repayment of all the outstanding loan and interests accruing thereon under the Facility was made. Given that the Offeror is committed to, by not later than close of the Offer and appointment of new directors onto the Board representing a majority of the members of the Board, provide necessary financial support to the Company, the Board is of the view that the financial support from the Offeror would help the Company to restore its financial stability.

## 1. RESPONSIBILITY STATEMENT

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this Response Document and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this Response Document have been arrived at after due and careful consideration and there are no other facts not contained in this Response Document, the omission of which would make any statement in this Response Document misleading.

The information contained in this Response Document relating to the Offer, the Offeror and parties acting in concert with it has been extracted from or based on the Offer Document. The only responsibility accepted by the Directors in respect of such information is for the correctness and fairness of the extraction of such information and/or its reproduction or presentation.

## 2. SHARE CAPITAL

As at the Latest Practicable Date, there were 1,313,962,560 Shares in issue. No Shares had been issued since 28 February 2021.

As at the Latest Practicable Date, the Company had no other outstanding warrants, derivatives, options or other securities which may confer any rights to the holder(s) thereof to subscribe for, convert or exchange into Shares and the Company had not entered into any agreement for the issue of any Shares or any warrants, derivatives, options or other securities which may confer any rights to the holder(s) thereof to subscribe for, convert or exchange into Shares.

All Shares in issue rank *pari passu* in all respects with each other including as to rights to dividends, voting and return of capital.

## 3. DISCLOSURE OF INTERESTS

### **Directors' and chief executives' interests and short positions in the Shares, underlying Shares and debentures**

As at the Latest Practicable Date, the interests of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures and the details of any right to subscribe for Shares or shares of any of its associated corporations (within the meaning of Part XV of the SFO) and of the exercise of any such rights, as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) in the Listing Rules, or required to be disclosed under the Takeovers Code, were as follows:

*Long position in the Shares***(a) Long positions in shares of the Company**

Name of Director	Capacity	Personal interests	Corporate interests	Total interests	Approximate % of shares in issue
Mr. King Wing Ma	Beneficial owner	1,240,928	Nil	1,240,928	0.09
Mr. Eric K K Lo	Beneficial owner	1,200	Nil	1,200	0.00

**(b) Associated corporations**

As at the Latest Practicable Date, Mr. Philip K H Ma, Mr. King Wing Ma and Mr. Eric K K Lo held 1,028, 1,225 and 216 ordinary shares, respectively, in Sincere LA. In addition, Mr. Philip K H Ma held 500 promoter shares and Mr. King Wing Ma held 834 promoter shares in Sincere LA.

As at the Latest Practicable Date, Mr. Philip K H Ma, Mr. King Wing Ma and Mr. Eric K K Lo held 2,538, 26 and 1,019 ordinary shares, respectively, in Sincere II.

As at the Latest Practicable Date, Mr. Philip K H Ma and Mr. King Wing Ma held 10 and 10 ordinary shares, respectively, in Perfumery.

In addition to the above, certain Directors have non-beneficial personal equity interests in certain subsidiaries held for the benefit of the Company solely for the purpose of complying with minimum company membership requirements.

Save as disclosed herein, as at the Latest Practicable Date, none of the Directors or chief executives of the Company had or was deemed to have any interest or short positions in the Shares, underlying Shares or debenture of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be recorded in the register to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code or as required to be disclosed under the Takeover Code.

### Substantial shareholders' interests and short positions in the Shares, underlying Shares and debentures

As at the Latest Practicable Date, the interests of every person (not being a Director or chief executive of the Company) in the shares and underlying shares of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

#### *Long position in the Shares*

Name	Capacity	Nature of interest	Number of shares and share options	Approximate % of shares in issue
Dr. Lin	Interest of controlled corporations	Corporate	922,968,476 (Note 1)	70.24
MHL	Interest of controlled corporations	Corporate	922,968,476 (Note 1)	70.24
Realord	Beneficial owner	Corporate	922,968,476 (Note 1)	70.24
Madam Su	Interest of spouse	Family	922,968,476 (Note 1)	70.24
Yuan Lie Ming Peter	Beneficial owner	Personal	71,569,800	5.45

*Notes:*

- (1) There is duplication of interests among Dr. Lin, MHL, Realord and Madam Su.

Win Dynamic has tendered all of the 662,525,276 Shares beneficially owned by it for acceptance under the Offer and each of the Sincere Companies has tendered all of the Shares beneficially owned by it, being 183,136,032 Shares in the case of Sincere LA, 75,608,064 Shares in the case of Sincere II and 1,699,104 Shares in the case of Perfumery, for acceptance under the Offer. As a result:

- the Offeror is interested in 922,968,476 Shares, representing 70.24% of the issued shares of the Company
- MHL is deemed to be interested in 922,968,476 Shares, representing 70.24% of the issued shares of the Company, by virtue of its 74.62% interest in the Offeror;
- Dr. Lin is deemed to be interested in 922,968,476 Shares, representing 70.24% of the issued shares of the Company, by virtue of its 70% interest in MHL;
- Madam Su is deemed to be interested in 922,968,476 Shares, representing 70.24% of the issued shares of the Company, by virtue of being the spouse of Dr. Lin.



Save as disclosed above, as at the Latest Practicable Date the Company had not been notified by any persons (other than the Directors and chief executive of the Company) who had an interest or short position in the Shares, underlying Shares and debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

#### **4. INTERESTS IN AND DEALINGS IN SECURITIES OF THE OFFEROR**

As at the Latest Practicable Date, neither the Company nor any of the Directors had any interest in the equity share capital of the Offeror or convertible securities, warrants, options or derivatives in respect of the equity share capital of the Offeror.

During the Relevant Period, save for the Irrevocable Undertakings, neither the Company nor any of the Directors, in respect of their own beneficial shareholdings had dealt in the equity share capital of the Offeror or convertible securities, warrants, options or derivatives in respect of the equity share capital of the Offeror.

#### **5. HOLDINGS AND DEALINGS IN SECURITIES OF THE COMPANY**

During the Relevant Period, none of the Directors or any person who is presumed to be acting in concert with the Offeror by virtue of class (1), (2), (3) and (5) of the definition of “acting in concert” or an associate of the Offeror by virtue of class (2), (3) and (4) of the definition of “associate” under the Takeovers Code have dealt in any Shares or any convertible securities, warrants, options or derivatives issued by the Company.

During the Relevant Period and as at the the Latest Practicable Date, save for the 2,199,200 Shares tendered by Mr. Eric K K Lo, 5,120,000 Shares tendered by Mr. Philip K H Ma, 102,400 Shares tendered by Mr. Charles M W Chan and 40,000 Shares tendered by Mr. Peter Tan in acceptance of the Offer, no other Directors had dealt in any Shares or any convertible securities, warrants, options or derivatives issued by the Company.

As at the Latest Practicable Date,

- (i) save for (a) 1,240,928 Shares held by Mr. King Wing Ma and (b) 1,200 Shares held by Mr. Eric K K Lo, none of the Directors had any interests in any Shares or any convertible securities, warrants, options or derivatives issued by the Company;
- (ii) no Shares or any convertible securities, warrants, options or derivatives issued by the Company were owned or controlled by a subsidiary of the Company or by a pension fund (if any) of any member of the Group or by a person who is presumed to be acting in concert with the Company by virtue of class (5) of the definition of “acting in concert” or an associate of the Company by virtue of class (2) of the definition of “associate” under the Takeovers Code;



- (iii) no Shares or any convertible securities, warrants, options or derivatives issued by the Company were owned or controlled by a person who has an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code existed between the Company, or person who is presumed to be acting in concert with the Company by virtue of class (1), (2), (3) and (5) of the definition of “acting in concert” or an associate of the Company by virtue of class (2), (3) and (4) of the definition of “associate” under the Takeovers Code;
- (iv) no Shares or any convertible securities, warrants, options or derivatives issued by the Company were managed on a discretionary basis by fund managers (other than exempted fund managers) (if any) connected with the Company;
- (v) the Directors intended, in respect of their own beneficial shareholdings, to accept the Offer; Mr. Eric K K Lo has tendered 2,199,200 Shares, Mr. Phillip K H Ma has tendered 5,120,000 Shares, Mr. Charles M W Chan has tendered 102,400 Shares; Mr. Peter Tan has tendered 40,000 Shares and Mr Anders W L Lau does not hold any beneficial shareholding in the Company; and
- (vi) none of the Company nor any of the Directors had borrowed or lent any Shares or any convertible securities, warrants, options or derivatives issued by the Company during the Relevant Period.

## **6. MATERIAL CONTRACTS**

Save for the following, there were no material contracts (not being contracts entered into in the ordinary course of business) which had been entered into by any member of the Group within the two years immediately preceding the date of the Joint Announcement and up to the Latest Practicable Date:

- (i) three agreements each dated 22 March 2019 between the Company and one of the Sincere Companies in respect of the proposed acquisition by the Company of shares in the Sincere Companies, which were all terminated by a termination agreement (the “Termination Agreement”) dated 28 May 2019;
- (ii) an agreement dated 22 March 2019 between the Company and the Sincere Companies in relation to the proposed buy-back from the Sincere Companies, and cancellation of, Shares by the Company which was terminated by the Termination Agreement;
- (iii) the underwriting agreement dated 22 March 2019 and entered into between the Company and Win Dynamic in relation to an open offer of the Company (the “Open Offer”), as amended by an amended and restated underwriting agreement dated 28 May 2019;
- (iv) the agreement dated 22 March 2019 entered into between the Company and Realord Asia Pacific in respect of the placing of certain offer shares under the Open Offer, as amended by a supplemental agreement dated 28 May 2019;
- (v) the SC Irrevocable Undertakings; and
- (vi) the Deed.

**7. LITIGATION**

As at the Latest Practicable Date, neither the Company nor any other member of the Group was engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened against any member of the Group.

**8. ARRANGEMENTS AFFECTING DIRECTORS**

As at the Latest Practicable Date,

- (i) none of the Directors had been or was to given be any benefit as compensation for loss of office or otherwise in connection with the Offer;
- (ii) save for the Deed, there was no agreement or arrangement between any Director and any other person which is conditional on or dependent upon the outcome of the Offer or otherwise connected with the Offer; and
- (iii) there was no material contract entered into by the Offeror in which any Director had a material personal interest.

**9. DIRECTORS' SERVICE AGREEMENTS**

As at the Latest Practicable Date, (i) none of the Directors had any service contracts with the Company or any of its subsidiaries or associated companies in force which (a) (including both continuous and fixed term contracts) have been entered into or amended with during the Relevant Period; (b) were continuous contracts with a notice period of 12 months or more; or (c) were fixed term contracts with more than 12 months to run irrespective of the notice period; and (ii) none of the Directors had any existing or proposed service contract with any member of the Group or any associated companies of the Company which does not expire or is not determinable by such member of the Group within one year without payment of compensation (other than statutory compensation).

**10. EXPERTS AND CONSENTS**

The following are the qualifications of the experts who have given an opinion or advice contained in this Response Document:

Name	Qualification
Yue Xiu Capital	a corporation licensed to carry out Type 6 (advising on corporate finance) regulated activity under the SFO

Yue Xiu Capital has given and has not withdrawn its written consent to the issue of this Response Document with the inclusion herein of the text of its letter, and references to its name in the form and context in which they are included.

**11. MISCELLANEOUS**

- (i) The registered office and principal place of business of the Company is at 24th Floor, Leighton Centre, 77 Leighton Road, Hong Kong.
- (ii) The company secretary of the Company is Ms. Ada S P Cheung. Ms. Cheung was appointed as the company secretary of the Company in August 2004. She is a member of the Hong Kong Institute of Certified Public Accountant. She is also a member of the Institute of Chartered Secretaries and Administrators and a member of the Hong Kong Institute of Chartered Secretaries.
- (iii) The share registrar of the Company is Tricor Tengis Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (iv) The registered office of Yue Xiu Capital is at 24/F Siu On Centre, 188 Lockhart Road, Wanchai, Hong Kong.
- (v) The English text of this Response Document shall prevail over the Chinese text, in case of any inconsistency.

**12. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection (i) during normal business hours from 9:00 a.m. to 5:30 p.m. (other than Saturdays, Sundays and public holidays) at the principal place of business of the Company in Hong Kong at 24th Floor, Leighton Centre, 77 Leighton Road, Hong Kong; (ii) on the website of the SFC ([www.sfc.hk](http://www.sfc.hk)); and (iii) on the website of the Company (<http://www.sincere.com.hk/>) from the date of this Response Document for so long as the Offer remains open for acceptance:

- (i) the articles of association of the Company;
- (ii) the annual reports of the Company for each of the two financial years ended 28 February 2019 and 29 February 2020;
- (iii) the letter from the Board, the text of which is set out in this Response Document;
- (iv) the letter from the IBC, the text of which is set out in this Response Document;
- (v) the letter from Yue Xiu Capital, the text of which is set out in this Response Document;
- (vi) the material contracts referred to in the section headed "Material contracts" in this appendix;
- (vii) the written consents referred to in the section headed "Experts and consents" in this appendix; and
- (viii) this Response Document.