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22 December 2023

*To the Independent Board Committee and the Independent Shareholders*

**Alibaba Health Information Technology Limited**
26/F, Tower One
Times Square
1 Matheson Street
Causeway Bay, Hong Kong

Dear Sir and Madam,

# (1) DISCLOSEABLE AND CONNECTED TRANSACTION AND (2) NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

## INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Share Purchase Agreement, the Exclusive Services Framework Agreement and the continuing connected transactions contemplated thereunder. Details of the Proposed Acquisition and the continuing connected transactions contemplated under the Exclusive Services Framework Agreement are set out in the "Letter from the Board" contained in the circular of the Company dated 22 December 2023 (the "**Circular**"), of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless otherwise defined herein or required by the context.

On 28 November 2023, the Company and the Vendor entered into the Share Purchase Agreement, pursuant to which the Company had conditionally agreed to acquire, and the Vendor had conditionally agreed to sell, the entire issued share capital of the Target Company subject to the terms and conditions of the Share Purchase Agreement. The Consideration payable by the Company to the Vendor is HK$13,512,000,000, which will be satisfied by (i) the Company issuing 2,558,222,222 Consideration Shares at the Issue Price of HK$4.50 per Share to the Vendor (and/or its nominee) at Completion; and (ii) the Company paying the USD Equivalent of HK$2,000,000,000 in cash to the Vendor at Completion, which shall be funded by internal resources of the Group.

On 27 November 2023, the WFOE and Alimama Software entered into the Exclusive Services Framework Agreement pursuant to which the WFOE would operate and manage the Target Business with the Exclusive Marketing Materials Review Right to provide the Marketing Materials Review Services in respect of products and services under the Healthcare Categories and an ancillary right to provide the Value-added Services to the Target Merchants under the Healthcare Categories. The initial term of the Exclusive Services Framework Agreement is three years commencing from the date of signing of the Exclusive Services Framework Agreement.

**LISTING RULES IMPLICATIONS**

As one or more of the applicable percentage ratios in respect of the Share Purchase Agreement exceed 5% but are all below 25%, the Share Purchase Agreement constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules. Each of Perfect Advance Holding Limited and Ali JK Nutritional Products Holding Limited is a Substantial Shareholder and a connected person of the Company. Alibaba Holding is the ultimate holding company of Perfect Advance Holding Limited, Ali JK Nutritional Products Holding Limited and the Vendor. Accordingly, the Vendor is a connected person of the Company and therefore the Proposed Acquisition also constitutes a connected transaction of the Company and is subject to the approval of the Independent Shareholders at the SGM.

In addition, Alimama Software is an indirect wholly-owned Subsidiary of Alibaba Holding and therefore is a connected person of the Company. Consequently, the transactions contemplated under the Exclusive Services Framework Agreement will, upon the Completion, constitute continuing connected transactions for the Company under the Listing Rules. It is expected that the highest of the applicable percentage ratios in respect of the Exclusive Services Framework Agreement will be more than 5%. Accordingly, the transactions contemplated under the Exclusive Services Framework Agreement will constitute non-exempt continuing connected transactions and will be subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

To the best knowledge, belief and information of the Directors, having made all reasonable enquiries, as at the Latest Practicable Date, each of Perfect Advance Holding Limited, Alibaba Investment Limited, Ali JK Nutritional Products Holding Limited and Antfin (Hong Kong) Holding Limited (being the close associate of Alibaba Holding) held 3,103,816,661 Shares, 48,716,465 Shares, 4,560,785,407 Shares and 60,576,000 Shares respectively, and these Shares (which included all the shares held by the respective associates of Perfect Advance Holding Limited, Alibaba Investment Limited and Ali JK Nutritional Products Holding Limited) represent approximately 22.93%, 0.36%, 33.70% and 0.45% of the issued share capital of the Company respectively. This, when aggregated, represents a total of 7,773,894,533 Shares and approximately 57.44% of the issued share capital of the Company. Each of Perfect Advance Holding Limited, Alibaba Investment Limited, Ali JK Nutritional Products Holding Limited and their respective associates (including Antfin (Hong Kong) Holding Limited), will abstain from voting in relation to the ordinary resolutions to be put forward at the SGM. Save as disclosed above, no other Shareholder is required to abstain from voting on the above ordinary resolutions.

## THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising all the independent non-executive Directors, namely Ms. Huang Yi Fei (Vanessa), Dr. Shao Rong and Ms. Wu May Yihong have been formed to advise the Independent Shareholders as to whether the terms of the Share Purchase Agreement, the Exclusive Services Framework Agreement and the continuing connected transactions contemplated thereunder are entered into by the Group in its ordinary and usual course of business, on normal commercial terms, in the interests of the Company and the Shareholders as a whole, are fair and reasonable so far as the Independent Shareholders are concerned, and whether the proposed annual caps in respect of the fees receivable by the Company under the Exclusive Services Framework Agreement (the "**Proposed Annual Caps**") are fair and reasonable; and how the Independent Shareholders should vote in respect of the proposed resolutions at the SGM to approve the Share Purchase Agreement, the Exclusive Services Framework Agreement and the continuing connected transactions contemplated thereunder, taking into account the recommendation from the Independent Financial Adviser.

## THE INDEPENDENT FINANCIAL ADVISER

As the Independent Financial Adviser, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders as to whether the terms of the Share Purchase Agreement, the Exclusive Services Framework Agreement and the continuing connected transactions contemplated thereunder are entered into by the Group in its ordinary and usual course of business, on normal commercial terms, in the interests of the Company and the Shareholders as a whole, are fair and reasonable so far as the Independent Shareholders are concerned, and whether the Proposed Annual Caps are fair and reasonable; and how the Independent Shareholders should vote in respect of the proposed resolutions at the SGM to approve the Share Purchase Agreement, the Exclusive Services Framework Agreement and the continuing connected transactions contemplated thereunder.

We acted as the independent financial adviser for the Company with regards to the continuing connected transactions in relation to contractual arrangements, details of which were set out in the announcement of the Company dated 30 June 2023. Save for the aforesaid transaction, we have not acted as the independent financial adviser or financial adviser in relation to any transactions of the Company or provided any other service(s) to the Company in the last two years prior to the date of the Circular. We do not have any relationships with the Company that could be regarded as relevant to our independence. Pursuant to Rule 13.84 of the Listing Rules, and given that remuneration for our engagement to opine on the transactions contemplated under the Share Purchase

Agreement and the Exclusive Services Framework Agreement is at market level and not conditional upon successful passing of the resolutions, and that our engagement is on normal commercial terms, we are independent of the Company.

## BASIS OF OUR ADVICE

In formulating our opinion, we have reviewed, amongst others, (i) the Share Purchase Agreement; (ii) the Exclusive Services Framework Agreement; (iii) the interim report of the Company for the six months ended 30 September 2023 (the "**FY2024 Interim Report**"); (iv) the Valuation Report of the Target Group as set out in Appendix II to the Circular; (v) the annual report of the Company for the year ended 31 March 2023 (the "**FY2023 Annual Report**"); (vi) the unaudited financial information of the Target Business as set out in Appendix I to the Circular; and (vii) other information as set out in the Circular.

We have also relied on the statements, information, opinions and representations contained or referred to in the Circular and/or provided to us by the Company, the Directors and the management of the Company (the "**Management**"). We have assumed that all the statements, information, opinions and representations contained or referred to in the Circular and/or provided to us were true, accurate and complete at the time they were made and will continue to be so up to the date of the SGM. The Directors collectively and individually accept full responsibility, including particulars given in compliance with the Listing Rules for the purpose of giving information with regards to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other facts the omission of which would make any statement in the Circular misleading.

We have no reason to believe that any statements, information, opinions or representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the statements, information, opinions or representations provided to us untrue, inaccurate or misleading.

We consider that we have been provided with, and have reviewed, sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent investigation into the business, financial conditions and affairs or future prospects of the Group.

## PRINCIPAL FACTORS AND REASONS CONSIDERED

### 1. Background information of the Group

#### *1.1 Principal business of the Group*

The Company is an investment holding company and the Group provides accessible and affordable, convenient, efficient and reliable medical and healthcare services to hundreds of millions of families. The principal activities of the Group comprise the sale of pharmaceutical and healthcare products and services, the provision of internet-based medical and healthcare services, and digital tracking services and other innovative services.

### *1.2 Financial information of the Group*

Set out below is a table summarising certain key financial information of the Group extracted from the FY2024 Interim Report and the FY2023 Annual Report.

*Extract of consolidated statement of profit or loss*

| | For the year ended 31 March | | For the six months ended 30 September | |
|---|---|---|---|---|
| | **2022** | **2023** | **2022** | **2023** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | *(audited)* | *(audited)* | *(unaudited)* | *(unaudited)* |
| Revenue | 20,577,616 | 26,763,016 | 11,500,569 | 12,956,000 |
| — *Pharmaceutical direct sales business* | *17,911,088* | *23,591,577* | *10,081,462* | *11,446,663* |
| — *Pharmaceutical e-commerce platform business* | *2,025,855*[(1)] | *2,237,953* | *999,769* | *1,021,241* |
| — *Healthcare and digital services business* | *640,673*[(1)] | *933,486* | *419,338* | *488,096* |
| Gross profit | 4,107,993 | 5,701,334 | 2,300,656 | 2,868,668 |
| Profit/(Loss) for the year/period attributable to owners of the Company | (265,555) | 533,407 | 162,194[(2)] | 445,891 |

*Extract of consolidated statement of financial position*

| | As at 31 March | | As at 30 September |
|---|---|---|---|
| | **2022** | **2023** | **2023** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| | *(audited)* | *(audited)* | *(unaudited)* |
| Total assets | 19,201,969 | 20,747,820[(2)] | 21,439,690 |
| *Cash and cash equivalents* | *10,547,851* | *10,917,171* | *11,697,450* |
| Total liabilities | 5,129,737 | 5,600,621[(2)] | 5,377,931 |
| Total equity attributable to owners of the Company | 14,098,419 | 15,173,573[(2)] | 16,088,751 |

*Notes:*

1. According to the FY2023 Annual Report, these figures have been reclassified and restated to better reflect the Group's business and revenue streams. For details, please refer to Note 5 of the Independent Auditor's Report in the FY2023 Annual Report.

2. According to the FY2024 Interim Report, these figures have been restated as the Group has applied the amendments on temporary differences related to leases as at 1 April 2022, with any cumulative effect recognised as an adjustment to the balance of accumulated losses or other component of equity as appropriate at that date. For details, please refer to the FY2024 Interim Report.

*Year ended 31 March 2022 compared to year ended 31 March 2023*

The Group recorded revenue of approximately RMB26,763.0 million during the year ended 31 March 2023 ("**FY2023**"), representing an increase of approximately 30.1% from approximately RMB20,577.6 million during the year ended 31 March 2022 ("**FY2022**"). Such increase was due to the improvement in revenue generated from all of the three business lines of the Group. For pharmaceutical direct sales business, revenue increased by approximately 31.7% from approximately RMB17,911.1 million in FY2022 to approximately RMB23,591.6 million in FY2023, which was mainly attributable to the constant enrichment of categories of goods sold through the direct business-to-customer ("**B2C**") retail and stock keeping units ("**SKUs**"), the increased sales volume of prescription drugs driven by in-depth cooperation with pharmaceutical companies, as well as the continuous optimisation of user experience by adopting a number of measures, such as improving information security and providing more professional consultation services. For pharmaceutical e-commerce platform business, revenue increased by approximately 10.5% from approximately RMB2,025.9 million in FY2022 to approximately RMB2,238.0 million in FY2023, which was mainly attributable to the Group's continued collaboration with partners to explore new development trends and to provide a wide spectrum of users with accessible and quality healthcare services. Lastly, for healthcare and digital services business, revenue increased by approximately 45.7% from approximately RMB640.7 million in FY2022 to approximately RMB933.5 million in FY2023 as the Group continued to penetrate into areas of Internet healthcare and healthcare services, to acquire user traffic and offer a wide variety of medical and healthcare services to end users.

As a result of the above, the Group recorded an increase in gross profit from approximately RMB4,108.0 million in FY2022 to approximately RMB5,701.3 million in FY2023, representing gross profit margins of approximately 20.0% and 21.3% respectively. Such increase was mainly attributable to the Group's improvement in operating efficiency and pricing capabilities.

Due mainly to the improvement in revenue and gross profit, the Group recorded a turnaround from a loss attributable to owners of the Company of approximately RMB265.6 million in FY2022 to a profit of approximately RMB533.4 million in FY2023.

The Group's total assets increased by approximately 8.1% from approximately RMB19,202.0 million as at 31 March 2022 to approximately RMB20,747.8 million as at 31 March 2023 mainly due to an increase in inventories by approximately 35.6% from approximately RMB1,550.2 million as at 31 March 2022 to approximately RMB2,102.3 million as at 31 March 2023. Cash and cash equivalents increased slightly by approximately 3.5% from approximately RMB10,547.9 million as at 31 March 2022 to approximately RMB10,917.2 million as at 31 March 2023. In terms of liabilities, it increased by approximately 9.2% from approximately RMB5,129.7 million as at 31 March 2022 to approximately RMB5,600.6 million as at 31 March 2023 mainly due to an increase in contract liabilities by approximately 89.9% from approximately RMB260.7 million as at 31 March 2022 to approximately RMB495.1 million as at 31 March 2023. In line with the Group's profitability in FY2023, equity attributable to owners of the Company increased by approximately 7.6% from approximately RMB14,098.4 million as at 31 March 2022 to approximately RMB15,173.6 million as at 31 March 2023.

*Six months ended 30 September 2022 compared to six months ended 30 September 2023*

The Group recorded revenue of approximately RMB12,956.0 million during the six months ended 30 September 2023 ("**1HFY2024**"), representing an increase of approximately 12.7% from approximately RMB11,500.6 million during the six months ended 30 September 2022 ("**1HFY2023**"). Such increase was due to the continued improvement in revenue generated from all of the three business lines of the Group. For pharmaceutical direct sales business, revenue increased by approximately 13.5% from approximately RMB10,081.5 million in 1HFY2023 to approximately RMB11,446.7 million in 1HFY2024, which was mainly attributable to the constant enrichment of categories of goods sold through the direct B2C retail and SKUs, the increased sales volume of prescription drugs as well as the continuous optimisation of user experience. For pharmaceutical e-commerce platform business, revenue increased by approximately 2.1% from approximately RMB999.8 million in 1HFY2023 to approximately RMB1,021.2 million in 1HFY2024, which was mainly due to the Group having continued to expand its partnership with global pharmaceutical companies, nutritional and healthcare product manufacturers and distributors. Lastly, for healthcare and digital services business, revenue increased by approximately 16.4% from approximately RMB419.3 million in 1HFY2023 to approximately RMB488.1 million in 1HFY2024 as the Group continued to enhance user experience of its professional healthcare services and provide seamless online-to-offline healthcare services to end users through various channels.

As a result of the above, the Group recorded an increase in gross profit from approximately RMB2,300.7 million in 1HFY2023 to approximately RMB2,868.7 million in 1HFY2024, representing gross profit margins of approximately 20.0% and 22.1% respectively.

Due mainly to the improvement in revenue and gross profit, as well as the Group's enhanced operational efficiency, the Group recorded a significant increase in profit attributable to owners of the Company from approximately RMB162.2 million in 1HFY2023 to approximately RMB445.9 million in 1HFY2024, representing an increase of approximately 174.9%.

The Group's total assets increased by approximately 3.3% from approximately RMB20,747.8 million as at 31 March 2023 to approximately RMB21,439.7 million as at 30 September 2023 mainly due to an increase in cash and cash equivalents by approximately 7.1% from approximately RMB10,917.2 million as at 31 March 2023 to approximately RMB11,697.5 million as at 30 September 2023. In terms of liabilities, it decreased by approximately 4.0% from approximately RMB5,600.6 million as at 31 March 2023 to approximately RMB5,377.9 million as at 30 September 2023 mainly due to a decrease in trade and bills payables by approximately 6.9% from approximately RMB3,714.0 million as at 31 March 2023 to approximately RMB3,458.8 million as at 30 September 2023. In line with the Group's profitability in 1HFY2024, equity attributable to owners of the Company increased by approximately 6.0% from approximately RMB15,173.6 million as at 31 March 2023 to approximately RMB16,088.8 million as at 30 September 2023.

### *1.3 Outlook and strategy of the Group*

The Company stated in the FY2024 Interim Report and FY2023 Annual Report that, as a leading player in the healthcare services industry, the Group will take initiative to keep abreast of the latest policy developments, uphold its original intention to make healthcare services accessible, and build a one-stop healthcare system that combines both online-to-offline services with a focus on users' underlying needs. In particular, the Group will continue to (i) leverage on its digital capabilities to address the needs of its growing user base for healthcare services that are more convenient and of better quality; (ii) cooperate with partners to explore new trends in the industry so as to accelerate sectoral development; (iii) explore and enhance its professional healthcare service capabilities; and (iv) strengthen its collaboration with partners from the Alibaba Group's ecosystem, undertake in-depth cooperation on localised services such as medical checkups and examinations. All in all, with "cloud-based infrastructure" as the foundation, "cloud-based pharmacy" as the core, and "cloud-based hospital" as the engine, the Group aims to provide affordable, convenient, efficient and reliable medical and healthcare services to hundreds of millions of families.

Overall, we noted that the Group's continued revenue growth in FY2023 and 1HFY2024 has strengthened its financial position and has provided it with the foundation and resources to conduct acquisition activities such as the Proposed Acquisition which can position it for further growth and development.

Based on a market report published by QuestMobile, a research institution, in relation to the digital marketing industry in the PRC on 25 July 2023 (the "**QuestMobile Report**"), we noted that the digital marketing industry has resumed its growth in 2023 following the gradual recovery of the PRC economy where it achieved a period-on-period growth of approximately 2.3% during the first quarter of 2023. The industry's growth is projected to further pick up in the remaining of the year. We also noted from the QuestMobile Report that in the first half of 2023, digital marketing expenses for healthcare products and drugs experienced a period-on-period growth of approximately 7.9%. Having considered the above data, we believe that the Target Group, being one of the players in this market, may potentially capture the recovery trend post pandemic.

## 2. Background information of the Target Group

### *2.1 Principal business of the Target Group*

The Target Group, which comprises the Target Company, the HK Subsidiary and the WFOE, operates and manages the Target Business. The Target Company, an offshore holding vehicle incorporated under the laws of the Cayman Islands on 2 November 2023, holds the entire issued share capital of the HK Subsidiary which in turn holds 100% of the equity interest in the WFOE. The HK Subsidiary is a private company incorporated in Hong Kong on 2 November 2023 and the WFOE is a limited liability company incorporated in the PRC on 9 November 2023.

The Target Business comprises the provision of (i) the Marketing Materials Review Services under the Exclusive Marketing Materials Review Right; and (ii) the Value-added Services.

For further details, please refer to the paragraph headed "2.5 Information on the Target Group and the Target Business" in the "Letter from the Board" of the Circular.

### *2.2 Financial information of the Target Group*

Set out below is a table summarising certain key unaudited adjusted financial information of the Target Business for the years ended 31 March 2022 and 2023, and the three months ended 30 June 2022 and 2023 respectively.

| | **For the year ended 31 March** | | **For the three months ended 30 June** | |
|---|---|---|---|---|
| | **2022** | **2023** | **2022** | **2023** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | *(unaudited)* | *(unaudited)* | *(unaudited)* | *(unaudited)* |
| Revenue | 1,200,899 | 1,202,212 | 290,077 | 342,735 |
| Gross profit | 1,198,976 | 1,199,639 | 289,296 | 342,068 |
| Net profit (before taxation) | 1,198,963 | 1,199,626 | 289,293 | 342,065 |
| Net profit (after taxation) | 899,222 | 899,719 | 216,970 | 256,549 |

*Note:* The unaudited adjusted revenue, gross profit and net profit (both before and after taxation) of the Target Business were provided by the Alimama Group and adjusted on the assumption that the Exclusive Services Framework Agreement was in effect from 1 April 2021 for illustrative purposes. For details of the adjustments and assumptions, please refer to the paragraph headed "2.5 Information on the Target Group and the Target Business" in the "Letter from the Board" of the Circular.

The Target Business's revenue amounted to approximately RMB1,202.2 million in FY2023, representing a nominal increase of approximately 0.1% as compared to the revenue of approximately RMB1,200.9 million in FY2022. The Target Business's gross profit margins remained at high levels of approximately 99.8% in FY2022 and FY2023 respectively, resulting in gross profits of approximately RMB1,199.0 million and RMB1,199.6 million respectively. As a result of the above, the Target Business recorded a slight increase in net profit (after taxation) from approximately RMB899.2 million in FY2022 to approximately RMB899.7 million in FY2023.

During the three months ended 30 June 2023 ("**1QFY2024**"), we noted that the Target Business recorded double-digit growth as compared to the corresponding period in 2022. The Target Business's revenue amounted to approximately RMB342.7 million in 1QFY2024, representing an increase of approximately 18.2% as compared to the revenue of approximately RMB290.1 million during the three months ended 30 June 2022 ("**1QFY2023**"). The Target Business's gross profit margins remained at high levels of approximately 99.7% and 99.8% in 1QFY2023 and 1QFY2024 respectively, resulting in gross profits of approximately RMB289.3 million and RMB342.1 million respectively. As a result of the above, the Target Business recorded an increase in net profit (after taxation) of approximately 18.2% from approximately RMB217.0 million in 1QFY2023 to approximately RMB256.5 million in 1QFY2024.

## 3. Principal terms of the Share Purchase Agreement

On 28 November 2023, the Company (as the purchaser) and Taobao Holding Limited (as the Vendor) entered into the Share Purchase Agreement, pursuant to which the Company had conditionally agreed to acquire, and the Vendor had conditionally agreed to sell, the entire issued share capital of the Target Company subject to the terms and conditions of the Share Purchase Agreement. The Consideration payable by the Company to the Vendor is HK$13,512,000,000, which will be satisfied by (i) the Company issuing 2,558,222,222 Consideration Shares at the Issue Price of HK$4.50 per Share to the Vendor (and/or its nominee) at Completion; and (ii) the Company paying the USD Equivalent of HK$2,000,000,000 in cash to the Vendor at Completion, which shall be funded by internal resources of the Group.

For details of the principal terms of the Share Purchase Agreement, please refer to the "Letter from the Board" of the Circular. When considering the fairness and reasonableness of the terms of the Share Purchase Agreement, we have taken into account the following factors.

### *3.1 The Consideration*

According to the Share Purchase Agreement, the Consideration shall be HK$13,512,000,000, which was arrived at after arm's length negotiations between the Company and the Vendor, taking into account various factors, including (i) the strategic value of the Target Business which will be a synergistic addition to the Group's healthcare ecosystem; (ii) the financial performance and the growth potential in the scale and profitability of the Target Business; (iii) the unique technology capabilities of the Target Business; (iv) the appraised value of the entire issued share capital of the Target Business as at 30 September 2023 in the amount of HK$13,794,000,000 according to the Valuation Report prepared by the Valuer; and (v) the price-to-earnings ratios of the Target Business relative to that of the other publicly traded comparable companies which are similarly engaged in the provision of digital marketing services.

We noted that the Consideration is determined mainly based on, and represents a discount of approximately 2.0%, to the Appraised Value (as defined below) of the Target Group as assessed by the Valuer. Given such discount, we are of the view that the method of arriving at the Consideration is fair and reasonable and is in the interests of the Company and the Shareholders as a whole. For discussion of the Appraised Value of the Target Group, please refer to the paragraph headed "3.2 Valuation of the Target Group" below.

When assessing the fairness and reasonableness of the Consideration, we have additionally considered that such amount of Consideration entails a return of investment of approximately 7.3% (calculated based on (i) the Target Group's net profit (after taxation) of approximately RMB899.7 million (equivalent to approximately HK$980.5 million) in FY2023; and divided by (ii) the Consideration of HK$13,512,000,000), which is higher than the Group's return on equity of approximately 3.5% (calculated based on (i) the Group's profit attributable to owners of the Company of approximately RMB533.4 million in FY2023; and divided by (ii) the Group's equity attributable to owners of the Company of approximately RMB15,173.6 million as at 31 March 2023). Coupled with the reasonableness of the Appraised Value of the Target Group as further discussed below, we are of the view that the Consideration is fair and reasonable.

### *3.2 Valuation of the Target Group*

When assessing the fairness and reasonableness of the valuation of the Target Group, we have in particular considered the Valuation Report. In this respect, we noted that Asia-Pacific Consulting and Appraisal Limited, the Valuer, has been engaged to issue the Valuation Report on the market value of 100% equity interests in the Target Group. According to the Valuation Report, the details of which are set out in Appendix II to the Circular, the appraised value of the Target Group amounted to RMB13,794,000,000 (the "**Appraised Value**") as at 30 September 2023 (the "**Valuation Date**"). The Consideration of HK$13,512,000,000 therefore represents an approximate 2.0% discount to the Appraised Value.

We have considered the following factors in assessing the fairness and reasonableness of the Appraised Value.

*3.2.1 Valuer's qualification*

We have conducted an independent interview with the Valuer where we have enquired, and the Valuer has confirmed, its independence from the Company. In addition to the Valuer's firm wide experience and expertise, we have obtained relevant qualifications and credentials of the specific team members involved in this valuation exercise.

We noted that the Valuer is a valuation and consulting firm specialising in the provision of listing, mergers and acquisitions, and financial-related valuation services in the Asia-Pacific region where all aspects of a valuation assignment can be carried out in-house. According to the Valuer, it has been appointed as valuer by over 100 Hong Kong listed companies in the past; it also has the relevant experience in valuing over ten companies/businesses similar to the Target Group (i.e. those who derive revenue principally from provision of advertising and marketing services). The person who is responsible for signing off the Valuation Report, Mr. Jack Li, is a Chartered Surveyor who has more than 15 years of experience in the relevant field in the PRC, Hong Kong and the Asia-Pacific region. We also noted that Mr. Jack Li is being supported by other employees of the Valuer who have the necessary qualification and experience for preparation of the Valuation Report.

We have also obtained and reviewed the Valuer's terms of engagement and discussed with the Valuer its work performed in connection with this valuation. We are satisfied that the Valuer is qualified to give the opinion as set out in the Valuation Report having taken into account its relevant experience and expertise, its independence, and its scope of work.

*3.2.2 Valuation methodology*

We noted that the Valuer, having considered the suitability of three valuation methodologies, being market approach, cost approach and income approach, has adopted the market approach in conducting valuation of the Target Group. We have discussed with the Valuer with regards to its rationale for adopting the market approach as follows:

(i) **Market approach**: the market approach considers prices recently paid for similar assets, with adjustments made to market prices to reflect condition and utility of the appraised assets relative to the market comparative. Assets for which there is an established secondary market may be valued by this approach. We understand from the Valuer that, having considered (i) there exist an established secondary market where information of comparable companies to the Target Group with similar businesses are publicly available; (ii) the limitations for cost approach and income approach given characteristics of the Target Group as further discussed below; and (iii) the simplicity, clarity and need of fewer assumptions, the market approach has been adopted.

(ii) **Cost approach**: the cost approach considers the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices for similar assets, with allowance for accrued depreciation or obsolescence present, whether arising from physical, functional or economic causes. The cost approach generally furnishes the most reliable indication of value for assets without a known secondary market. We understand that the Valuer has not adopted the cost approach since such approach does not take into account or consider the economic benefits generated by the Target Group. Instead, it focuses on the cost of replacement.

(iii) **Income approach**: the income approach is the conversion of expected periodic benefits of ownership into an indication of value. It is based on the principle that an informed buyer would pay no more for the project than an amount equal to the present worth of anticipated future benefits (income) from the same or a substantially similar project with a similar risk profile. This approach allows for the prospective valuation of future profits and there are numerous empirical and theoretical justifications for the present value of expected future cash flows. We understand that the Valuer has not adopted the income approach since such approach relies on numerous subjective assumptions over a long-time horizon and the result may be very sensitive to certain inputs.

Having considered the above and from our experience, it is common for valuers to adopt single methodology in valuation, and the Valuer's rationale for not adopting the cost and income approaches has been explained in the Valuation Report, we concur with the Valuer that the market approach is appropriate for valuing the Target Group, which takes into account the Target Group's economic benefits without having to rely on numerous subjective assumptions.

*3.2.3 Basis and assumptions*

The Valuer's valuation is conducted with reference to the International Valuation Standards issued by the International Valuation Standards Council. We understand that the Appraised Value was determined subject to certain valuation assumptions, including no major change in political, legal, economic and social environment in which the Target Group operates or intend to operate, the interest rates and exchange rates in the localities for the operation of the Target Group will not differ materially, and no hidden or unexpected conditions associated with the asset valued that might adversely affect the reported value, etc. We also noted that the Valuer relied on the financial and operational information provided by the Company. Based on our interview conducted with the Valuer, we noted that these assumptions adopted in the Valuation Report are commonly adopted in valuation reports for equity interest and nothing has come to our attention that would lead us to doubt the fairness and reasonableness of the assumptions adopted in the Valuation Report.

For the market approach, the Valuer firstly conducted research to select a group of comparable companies (the "**Comparable Companies**") and a suitable comparison multiple, which in this case, being the price-to-earnings ratio (the "**P/E Ratio**"). After calculating the average of Comparable Companies' P/E Ratios based on publicly available information, such average is applied by multiplying with the Target Group's last twelve months' ("**LTM**") earnings ended 30 June 2023 to derive the 100% equity value of the Target Group. The Valuer also adjusted for a market liquidity discount of 20% and a control premium of 25%. In assessing the fairness and reasonableness of the valuation basis adopted by the Valuer, we have considered the following aspects:

*Selection of Comparable Companies*

We understand that the Valuer has adopted the following criteria in selecting Comparable Companies: (i) the Comparable Companies are publicly listed in mature stock markets of Hong Kong and the United States; (ii) the Comparable Companies generate more than 50% of their revenues from the same or similar industry of Target Group such as advertising and precision marketing; (iii) the Comparable Companies' market capitalisations exceed one billion dollars; and (iv) the P/E Ratios of the Comparable Companies are available as at the Valuation Date. On top of the above, we noted that Alibaba Holding has been added as one of the Comparable Companies considering that the Target Business itself has been a part of Alibaba Holding's digital marketing business (Alimama), from an operational perspective. As a result of the above, ten Comparable Companies have been identified by the Valuer which, based on our review, have been selected in accordance to the Valuer's abovementioned selection criteria. For the full list of Comparable Companies selected, please refer to the Valuation Report set out in Appendix II to the Circular.

We consider the selection criteria adopted are fair and reasonable as they capture companies whose principal businesses and scales are comparable to the Target Group, and where market data is publicly and readily accessible.

*Selection of multiple*

The multiple adopted by the Valuer for comparison, being the P/E Ratio, is calculated based on the market capitalisation value of each of the Comparable Companies as at the Valuation Date and divided by their respective LTM earnings. We are of the view that P/E Ratio is a commonly used valuation yardstick in conducting market comparable analysis.

Further, we noted from the Valuation Report that out of the Comparable Companies selected based on the abovementioned criteria, two of the Comparable Companies, namely The Trade Desk, Inc. and Integral Ad Science Holding Corp., were excluded due to their exceptionally high P/E Ratios of approximately 66.89 times and 65.89 times respectively. We have discussed with the Valuer and understand that it is a common market practice to exclude certain outliers when their multiples significantly differ from the rest of the comparable companies as they are considered not representative of the broader market. In this regard, we noted that the P/E Ratios of the excluded Comparable Companies are significantly higher than those of the remaining Comparable Companies ranging from approximately 9.83 times to 20.89 times.

After excluding the two outliers, the average P/E Ratio of the Comparable Companies of approximately 13.48 times is being adopted to multiply the Target Group's LTM earnings of approximately RMB939.3 million to derive at the 100% equity value of the Target Group.

We considered that the adoption of P/E Ratio as the valuation multiple, as well as the exclusion of two outliers with exceptionally high P/E Ratios, is fair and reasonable.

*Discount for lack of marketability ("**DLOM**")*

Marketability is defined as the ability to convert the business interest into cash quickly at a known price with minimum transaction costs. For privately held company, there is usually a cost and a time lag associated with locating interested and capable buyers as there is no established market of readily-available buyers and sellers. All other factors being constant, an interest in a privately held company is worth less than an interest in a publicly traded company because no established market exists. We understand that DLOM is a downward adjustment to the value of the business interest to reflect its reduced level of marketability. Based on our discussion with the Valuer, we noted that a DLOM of 20% is being adopted with reference to the "Option Pricing Model" to adjust the equity value of the Target Group according to the Valuer's research regarding volatility of the Comparable Companies. In this regard, we have referenced to a widely adopted research study named "Stout Restricted Stock Study Companion Guide (2023 edition)" issued by Stout Risius Ross, LLC and noted that based on their research conducted on 776 private placement transactions, the average DLOM is 20.5%, which is similar to the level of DLOM adopted by the Valuer. As such, we considered that the DLOM being applied is fair and reasonable.

*Control premium*

Control premium is an amount by which the pro rata value of a controlling interest exceeds the pro rata value of a non-controlling interest in a business enterprise that reflects the power of a control. Since the P/E Ratio adopted in the valuation was calculated from publicly listed companies and thus market value calculated using such P/E Ratio represents the minority ownership interest. Control premium was adopted to adjust such minority interest market value to controlling interest market value. Based on our discussion with the Valuer, we noted that a control premium of 25% is being adopted with reference to the control premium of closed transactions in the advertising and targeted marketing industry. In this regard, we have referenced to a widely adopted research report named "Control Premium Study: 4th Quarter 2022" published by FactSet Mergerstat, LLC, where the median of equity control premium of a list of 519 cases of acquisitions globally for the year ended 31 December 2022 is 28.0%. Considering that the control premium of 25% adopted by the Valuer is slightly lower than the aforementioned median of equity control premium, we consider the control premium being applied is fair and reasonable.

*3.2.4 Section conclusion*

Taking into account the above, we are of the view that the Consideration, which represents an approximate 2.0% discount to the Appraised Value, is fair and reasonable.

### *3.3 The settlement terms*

According to the Share Purchase Agreement, approximately 85.2% of the Consideration or approximately HK$11,512,000,000 shall be settled by the allotment and issuance of 2,558,222,222 Consideration Shares at the Issue Price of HK$4.50 per Share; and the remaining 14.8% or USD Equivalent of HK$2,000,000,000 shall be settled in cash.

*3.3.1 The cash payment*

The Management advised that the portion of Consideration to be settled by cash, being USD Equivalent of HK$2,000,000,000, shall be funded by internal resources of the Group. In this regard, we noted that the Group had a cash and cash equivalents balance of approximately RMB11,697.5 million (equivalent to approximately HK$12,747.9 million) as at 30 September 2023, which the cash settlement portion of the Consideration accounted for approximately 15.7% of the aforesaid balance. In this regard, we concur with the Management's view that the Group has the necessary financial resources to settle the cash settlement portion of Consideration without significantly compromising its liquidity position required for its normal business operations.

*3.3.2 The Issue Price*

As stated in the paragraph headed "2.1 Principal terms of the Share Purchase Agreement" in the "Letter from the Board" of the Circular, the Company will issue 2,558,222,222 Consideration Shares at Completion to the Vendor to satisfy part of the Consideration, which represent approximately 18.90% of the issued share capital of the Company as at the Latest Practicable Date and approximately 15.90% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares.

The Consideration Shares will be issued at HK$4.50 per Consideration Share, which represents:

(a) a discount of approximately 3.23% to the closing price of the Shares of HK$4.65 per Share as quoted on the Stock Exchange on the Last Trading Day;

(b) a discount of approximately 3.10% to the average closing price for the five consecutive trading days up to and including the Last Trading Day of approximately HK$4.64 per Share;

(c) a discount of approximately 4.66% to the average closing price for the ten consecutive trading days up to and including the Last Trading Day of approximately HK$4.72 per Share;

(d) a discount of approximately 5.38% to the average closing price for the fifteen consecutive trading days up to and including the Last Trading Day of approximately HK$4.76 per Share;

(e) a discount of approximately 5.33% to the average closing price for the twenty consecutive trading days up to and including the Last Trading Day of approximately HK$4.75 per Share;

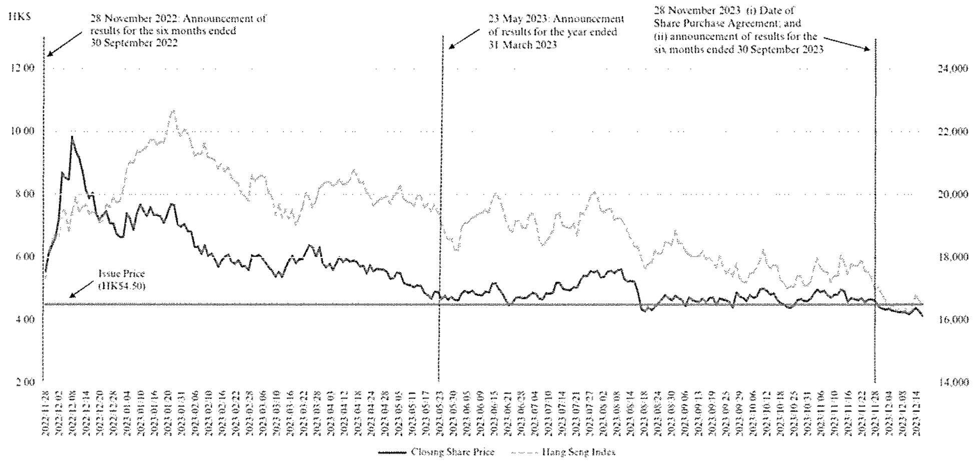
(f) a discount of approximately 4.28% to the average closing price for the thirty consecutive trading days up to and including the Last Trading Day of approximately HK$4.70 per Share;

(g) a premium of approximately 8.70% to the closing price on the Latest Practicable Date of approximately HK$4.14 per Share; and

(h) a premium of approximately 248.3% to the consolidated net asset value per Share of approximately RMB1.19 (equivalent to approximately HK$1.29) of the Company based on a total of 13,533,499,542 Shares in issue, the consolidated net asset value of approximately RMB16,062 million, and the exchange rate of RMB1.0 to HK$1.0886 as of 27 November 2023.

*3.3.3 Analysis of historical price performance of the Share*

In assessing the reasonableness of the Issue Price, we have considered the historical movement of the Share closing price. Set out below is a chart illustrating the historical closing prices of Shares from 28 November 2022 (i.e. being one year prior to the date of the Share Purchase Agreement) to the Last Trading Day and subsequent to that up to the Latest Practicable Date (the "**Review Period**"). We consider that a review period of around one year is adequate to illustrate the historical Share price movements for conducting a reasonable comparison between the closing prices of Shares and the Issue Price.




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

During the Review Period, the highest and lowest closing prices of the Shares were HK$9.83 and HK$4.14 per Share recorded on 8 December 2022 and 19 December 2023 respectively.

As illustrated in the graph above, the Share closing price increased sharply to its high of HK$9.83 per Share on 8 December 2022 subsequent to the Company's publication of its interim results announcement for the six months ended 30 September 2022 on 28 November 2022. However, this did not sustain long as the closing price declined to HK$6.65 per Share by end of December 2022. The Share closing price thereafter hovered between HK$6.65 per Share and HK$7.68 per Share from 3 January 2023 to 27 January 2023. Since then, the Share closing price was generally on a downward trend and dropped to a level around the Issue Price on 23 May 2023 when the Company published its annual results announcement for the year ended 31 March 2023. We noted that the aforesaid decreasing trend in Share closing price was highly correlated to the overall market movements as shown by the performance of Hang Seng Index, which decreased from 22,070 on

30 January 2023 to 19,431 on 23 May 2023. The Share price then traded around the Issue Price and closed between HK$4.28 per Share and HK$5.62 per Share during the period from 24 May 2023 to 27 November 2023. As at the Last Trading Day, the Share closing price was HK$4.65 per Share. The Share closing price subsequently was HK$4.14 per Share as at the Latest Practicable Date.

The Issue Price, being HK$4.50 per Share, is within the range of the lowest and highest closing prices of Shares during the Review Period and close to the levels of Share closing price in the recent three months and represents a discount of approximately 3.2% to the last closing price of Share prior to the date of the Share Purchase Agreement.

*3.3.4 Comparable issues analysis*

To assess the fairness and reasonableness of the Issue Price, we have also conducted a comparable analysis through identifying companies listed on the Main Board of the Stock Exchange which announced issuance of consideration shares for acquisition activities during the period from 28 May 2023 up to and including 28 November 2023, being the date of the Share Purchase Agreement. On such basis, we have identified 14 comparable companies (the "**Consideration Shares Comparables**"), which we consider to be an exhaustive list of the relevant comparable companies based on the abovementioned criteria. We consider that a review period of around six months prior to the date of the Share Purchase Agreement is a reasonable timeframe for identifying recent Consideration Shares Comparables that reflect the prevailing market sentiment, economic conditions and financial market cycles for the purpose of assessing the reasonableness of the Issue Price. In addition, we believe the 14 Consideration Shares Comparables identified based on the abovementioned selection criteria provide a representative sample for our comparable issues analysis purpose.

It should be noted that the Consideration Shares Comparables may have different principal activities, market capitalisation, profitability and financial position as compared with those of the Company. Circumstances leading the Consideration Shares Comparables to issue consideration shares may differ from that of the Company. Notwithstanding this, considering the similarity in nature of the issue of the Consideration Shares and the Consideration Shares Comparables that both involved issuing new shares to satisfy transaction consideration, we consider that the Consideration Shares Comparables can provide a valid general reference for similar type of transactions in the Hong Kong market under the recent market environment.

The following table sets out the issue price of the consideration shares and the discount/premium of issue price to the respective (average) closing price on the last trading day prior to/on the date of the relevant agreement, and for the last five, ten and 30 consecutive trading days prior to/including the date of the relevant agreement of the Consideration Shares Comparables.

| | | | | (Discount)/Premium of the issue price to | | | |
|---|---|---|---|---|---|---|---|
| **Date of announcement** | **Company name** | **Stock code** | **Issue price** *HK$* | **the closing price on the last trading day prior to/ on the date of the relevant agreement** % | **the average closing price over the last five consecutive trading days prior to/ including the date of the relevant agreement** % | **the average closing price over the last ten consecutive trading days prior to/ including the date of the relevant agreement** % | **the average closing price over the last 30 consecutive trading days prior to/ including the date of the relevant agreement** % |
| 29 May 2023 | Huili Resources (Group) Limited | 1303 | 0.25 | (12.30) | (5.30) | (8.26) | (19.14) |
| 15 June 2023 | TFG International Group Limited | 542 | 0.20 | (11.50) | (10.00) | (11.00) | (11.24) |
| 29 June 2023 | Affluent Partners Holdings Limited | 1466 | 0.2628 | (23.83) | (24.70) | (26.28) | (31.20) |
| 7 July 2023 | Tongguan Gold Group Limited | 340 | 0.50 | (16.70) | (18.00) | (18.00) | (15.30) |
| 24 August 2023 | Asia Resources Holdings Limited | 899 | 0.23 | 0.00 | 2.40 | 8.34 | 62.12 |
| 28 August 2023 | Xpeng Inc. | 9868 | 64.03 | (1.69) | 0.00 | (0.37) | (4.51) |
| 4 September 2023 | Anchorstone Holdings Limited | 1592 | 0.085 | 66.67 | 42.14 | 41.67 | 30.37 |
| 8 September 2023 | Infinities Technology International (Cayman) Holding Limited | 1961 | 1.40 | 0.00 | (3.40) | (2.51) | (4.91) |
| 14 September 2023 | MOS House Group Limited | 1653 | 0.34 | (4.23) | (3.41) | (4.49) | (7.65) |
| 19 September 2023 | Alibaba Pictures Group Limited | 1060 | 0.52 | (5.50) | (0.30) | (0.10) | 0.70 |
| 16 October 2023 | Gome Finance Technology Co., Ltd. | 628 | 0.08 | 0.00 | (2.68) | (1.00) | (10.11) |
| 30 October 2023 | China Rongzhong Financial Holdings Company Limited | 3963 | 0.38 | (9.52) | (9.09) | (8.87) | (7.47) |
| 31 October 2023 | Vongroup Limited | 318 | 0.242 | (13.57) | (14.79) | (18.40) | (16.55) |
| 13 November 2023 | Sanergy Group Limited | 2459 | 3.6 | (17.2) | (16.70) | (17.90) | (19.07) |
| | | | **Maximum** | **66.67** | **42.14** | **41.67** | **62.12** |
| | | | **Minimum** | **(23.83)** | **(24.70)** | **(26.28)** | **(31.20)** |
| | | | **Mean** | **(3.53)** | **(4.56)** | **(4.80)** | **(3.85)** |
| | | | **Median** | **(7.51)** | **(4.36)** | **(6.38)** | **(8.88)** |
| 28 November 2023 | The Company | 241 | 4.50 | (3.23) | (3.10) | (4.66) | (4.28) |

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

As shown in the above table, the issue prices of the Consideration Shares Comparables to the respective (average) closing price on the last trading day prior to/on the date of the relevant agreement, and for the last five, ten and 30 consecutive trading days prior to/including the date of the relevant agreement are in a range of premium of approximately 66.67% to discount of approximately 31.20%, with mean discount between approximately 3.53% and 4.80% and median discount between approximately 4.36% and 8.88%.

We noted that (i) the discount of Issue Price to the closing price on the Last Trading Day of approximately 3.23% is (a) within the range of premium of approximately 66.67% to discount of approximately 23.83%; (b) lower than the mean discount of approximately 3.53%; and (c) lower than the median discount of approximately 7.51%; (ii) the discount of Issue Price to the average closing price for the last five trading days up to and including the Last Trading Day of approximately 3.10% is (a) within the range of premium of approximately 42.14% to discount of approximately 24.70%; (b) lower than the mean discount of approximately 4.56%; and (c) lower than the median discount of approximately 4.36%; (iii) the discount of Issue Price to the average closing price for the last ten trading days up to and including the Last Trading Day of approximately 4.66% is (a) within the range of premium of approximately 41.67% to discount of approximately 26.28%; (b) lower than the mean discount of approximately 4.80%; and (c) lower than the median discount of approximately 6.38%; and (iv) the discount of Issue Price to the average closing price for the last 30 trading days up to and including the Last Trading Day of approximately 4.28% is (a) within the range of premium of approximately 61.12% to discount of approximately 31.20%; (b) slightly higher than the mean discount of approximately 3.85%; and (c) lower than the median discount of approximately 8.88%.

In assessing the fairness and reasonableness of the Issue Price, we have considered, amongst others, (i) the Issue Price, relative to the Share's closing price on the Last Trading Day and the last five, ten and 30 trading days are at discounts and within the range of those of the Consideration Shares Comparables; (ii) the discounts as represented by the Issue Price relative to the Share's (average) closing price on the Last Trading Day, last five and ten trading days are lower than the means of the Consideration Shares Comparables; (iii) the discounts as represented by the Issue Price relative to the Share's (average) closing price on the Last Trading Day, last five, ten and 30 trading days are lower than the medians of the Consideration Shares Comparables; (iv) notwithstanding the discount as represented by the Issue Price relative to the Share's average closing price for the last 30 trading days is slightly higher than the mean of the Consideration Shares Comparables, we have also considered the reasons for and benefits of the Proposed Acquisition as elaborated in the paragraph headed "4. The Company's rationale for the Proposed Acquisition and the Exclusive Services Framework Agreement" below; (v) the Issue Price is within the range of closing prices of the Shares during the Review Period and close to the levels of Share closing price in the recent three months; and (vi) the issue of Consideration Shares is construed as a means to finance part of the Proposed Acquisition without having significant cash outlay to the Group. Based on the above, we are of the view that the Issue Price is fair and reasonable.

Overall, we are of the view that the settlement terms are fair and reasonable as far as the Company and the Independent Shareholders are concerned.

*3.4 Section summary*

Having considered the factors above, we are of the view that the terms of the Share Purchase Agreement (including the allotment and issue of the Consideration Shares at the Issue Price) and the transactions contemplated thereunder are on normal commercial terms and are fair and reasonable as far as the Company and the Independent Shareholders are concerned.

**4. The Company's rationale for the Proposed Acquisition and the Exclusive Services Framework Agreement**

As stated in the paragraph headed "2.8 Reasons for and benefits of the Proposed Acquisition and the Exclusive Services Framework Agreement" in the "Letter from the Board" of the Circular, the Management considers that the Proposed Acquisition will enable the Company to, among others, offer one-stop solutions to better serve healthcare merchants' needs and capture potential cross-selling opportunities to encourage healthcare category merchants from the Alimama Group to adopt the Group's existing service offerings, and in turn, improve the Group's revenue growth and profitability outlook.

In this regard, we understand that the Group has established a strong presence in the internet healthcare and digital health sectors. Through the Proposed Acquisition, the Group can leverage on its expertise and know-how developed over the years to further complete its presence in the industry's ecosystem by providing marketing materials review services and related value-added services to healthcare category merchants, augmenting its existing business offerings. This can solidify the Group's competitive strengths and integrate resources to provide a full range of services to healthcare category merchants in line with the Group's strategy. In addition, through the Proposed Acquisition and the provision of Market Materials Review Services pursuant to the Exclusive Services Framework Agreement, the Group can gain access to Alimama Group's healthcare category merchants; this presents opportunities for potential cross-selling, expanding the Group's customer base and achieving further business growth. Furthermore, we noted that the business model of the Target Group enable it to command high gross profit margins as elaborated in the paragraph headed "2.2 Financial information of the Target Group" above. The Proposed Acquisition should enable the Group to enhance its overall profitability.

Overall, we concur with the Management that the entering into of the Share Purchase Agreement and the Exclusive Services Framework Agreement is in line with the Group's business strategy and in the interests of the Company and the Shareholders as a whole.

## 5. Effect of the Proposed Acquisition on the shareholding structure of the Company

As at the Latest Practicable Date, the Company had 13,533,499,542 Shares in issue. As set out in the paragraph headed "2.4 Effect of the Proposed Acquisition on the shareholding structure of the Company" in the "Letter from the Board" of the Circular, the following table illustrates the effect of the allotment and issuance of Consideration Shares on the shareholding structure of the Company.

| | **As at the Latest Practicable Date** | | **Immediately after Completion** | |
|---|---|---|---|---|
| | *Number of Shares* | *%* | *Number of Shares* | *%* |
| — Perfect Advance Holding Limited | 3,103,816,661 | 22.93 | 3,103,816,661 | 19.29 |
| — Alibaba Investment Limited | 48,716,465 | 0.36 | 48,716,465 | 0.30 |
| — Ali JK Nutritional Products Holding Limited | 4,560,785,407 | 33.70 | 4,560,785,407 | 28.34 |
| — Antfin (Hong Kong) Holding Limited | 60,576,000 | 0.45 | 60,576,000 | 0.38 |
| — Uni-Tech International Group Limited | 777,484,030 | 5.74 | 777,484,030 | 4.83 |
| — Taobao Holding Limited | — | — | 2,558,222,222 | 15.90 |
| — Directors of the Company | 3,201,442 | 0.02 | 3,201,442 | 0.02 |
| — Other shareholders | 4,978,919,537 | 36.80 | 4,978,919,537 | 30.94 |
| Total | 13,533,499,542 | 100% | 16,091,721,764 | 100% |

Assuming there will be no change in the issued share capital of the Company between the Latest Practicable Date and the Completion (save for the issue and allotment of the Consideration Shares), the interest of public Shareholders in the Company's total number of issued Shares will be diluted from approximately 36.80% to 30.94%. Meanwhile, it is observed that Alibaba Holding will remain as the majority Shareholder with its shareholding interests in the Company (i.e. sum of shareholding interests of Perfect Advance Holding Limited, Alibaba Investment Limited, Ali JK Nutritional Products Holding Limited and Taobao Holding Limited) increasing from approximately 56.99% to approximately 63.83%, which can be viewed as a reinforcement of its commitment towards the Company.

Taking into account (i) the entering into of the Share Purchase Agreement is in the interests of the Company and the Shareholders as a whole; (ii) the Consideration under the Share Purchase Agreement is fair and reasonable; and (iii) the settlement terms (including the Issue Price) are fair and reasonable, we consider that such potential dilution effect on the shareholding interests of the public Shareholders to be acceptable and justifiable.

## 6. Potential financial effects as a result of the Proposed Acquisition

Upon Completion, the Target Company will become a direct wholly-owned subsidiary of the Company. As a result, the financial results of the Target Group will be consolidated into the financial statements of the Group.

As the Consideration will be partially settled by Consideration Shares, the equity of the Group is expected to increase as a result of the enlarged capital base following the issue of Consideration Shares. Meanwhile, the Group's cash and cash equivalents balance is expected to decrease by the same amount of cash settlement portion of the Consideration, being USD Equivalent of HK$2,000,000,000.

## 7. The Exclusive Services Framework Agreement

On 27 November 2023, the WFOE and Alimama Software entered into the Exclusive Services Framework Agreement pursuant to which the WFOE would operate and manage the Target Business with the Exclusive Marketing Materials Review Right to provide the Marketing Materials Review Services in respect of products and services under the Healthcare Categories and an ancillary right to provide the Value-added Services to the Target Merchants under the Healthcare Categories. Upon Completion, the transactions contemplated under the Exclusive Services Framework Agreement constitute non-exempt continuing connected transactions for the Company under the Listing Rules.

To assess the fairness and reasonableness of the Exclusive Services Framework Agreement, we have considered the followings.

### *7.1 Principal terms of the Exclusive Services Framework Agreement*

The principal terms of the Exclusive Services Framework Agreement are summarised below. For details, please refer to the paragraph headed "2.2 The Exclusive Services Framework Agreement" in the "Letter from the Board" of the Circular.

| | |
|---|---|
| **Term:** | Initial term is three years commencing from the date of signing of the Exclusive Services Framework Agreement, which shall be renewed subject to compliance with the reporting, announcement and shareholders' approval requirements under applicable laws and regulations. |
| **Services to be provided:** | After Completion, the Group will, through the WFOE, operate and manage the Target Business with the Exclusive Marketing Materials Review Right to provide the Marketing Materials Review Services in respect of products and services under the Healthcare Categories and an ancillary right to provide the Value-added Services to the Target Merchants under the Healthcare Categories, in accordance with the relevant marketing policies and quality requirements made by the Alimama Group from time to time. |

| | |
|---|---|
| **Fees:** | The Alimama Software shall pay the Marketing Materials Review Services Fees to the WFOE equal to 20% of the Marketing Services Fees. |
| **Settlement:** | The Marketing Materials Review Services Fees shall be settled in cash on a quarterly basis. |

*Our views*

We understand from the Management that the pricing terms of 20% was arrived at after arm's length negotiations between the Group and the Alimama Group, taking into account various factors, including (i) the value of the Marketing Materials Review Services and Value-added Services to be provided by the Group to the Target Merchants; (ii) resources committed by both parties and indirect benefits of such healthcare-related marketing to the Group's business; (iii) the typical marketing spending take rate of approximately 10% to 20% charged by agencies who are engaged in comparable marketing services and act as demand side marketing service suppliers within the wider digital marketing industry in the PRC; and (iv) the gross profit margin of other listed companies or listing applicants who are principally engaged in similar marketing business, which ranges from approximately 9% to 20% in their respective latest available financial years, as discussed in the paragraph headed "2.2 The Exclusive Services Framework Agreement" in the "Letter from the Board" of the Circular.

In this regard, we understand that the Management has taken into account a public industry report prepared by i-Research in relation to the wider digital marketing industry value chain in the PRC, as well as certain public information disclosed by other listed companies or listing applicants who are principally engaged in similar marketing business. We have obtained and reviewed the aforesaid materials and have in particular noted from i-Research's industry report that the typical take rate of marketing agencies, who generally provide support to advertisers in matching potential demands for their products/services as well as certain technical support in digital marketing, ranged from 10% to 20%, where the 20% pricing terms pursuant to the Exclusive Services Framework Agreement represents the high end of the aforesaid range. We note that i-Research is a well-known PRC-based research company founded in 2002 which from time to time publishes research reports covering various industries, and its industry reports are made available to public on its official website. Considering that both marketing agencies and the services provided under the Exclusive Services Framework Agreement involve the provision of marketing services to merchants/advertisers, we believe that it is a reasonable reference for assessing the Group's pricing terms in relation to the provision of Marketing Materials Review Services and the Value-added Services. Furthermore, we have also considered the fact that the provision of Marketing Materials Review Services and Value-added Services is expected to entail minimal additional costs on the part of the Group as evidenced by the high level of gross profit margin generated by the

Target Business as discussed in the paragraph headed "2.2 Financial information of the Target Group" above, the return to the Group generated from the 20% of Marketing Services Fees is beneficial to and in the interests of the Group.

Taking into account the above, we considered that the terms of the Exclusive Services Framework Agreement are on normal commercial terms or better and are fair and reasonable.

### *7.2 Proposed Annual Caps*

The following table sets out the Proposed Annual Caps in respect of the fees receivable by the Company under the Exclusive Services Framework Agreement for the year ending 31 March 2024, 2025 and 2026 respectively.

| | **For the year ending 31 March** | | |
|---|---|---|---|
| | **2024** | **2025** | **2026** |
| | | *(RMB' million)* | |
| Proposed Annual Caps | 391 | 2,032 | 2,641 |

In determining the above Proposed Annual Caps, we understand from the Management that the Company has mainly taken into consideration (a) the unaudited adjusted revenue of the Target Business based on the revenue for marketing services in the management accounts of the Alimama Group and adjusted in accordance with the agreed pricing policy as set out in the Exclusive Services Framework Agreement for (i) the recent two financial years (i.e., approximately RMB1,201 million and RMB1,202 million in the financial years ended 31 March 2022 and 2023 respectively); and (ii) the three months ended 30 June 2022 and 2023 (i.e. approximately RMB290 million and RMB343 million respectively); (b) the Company's own expectations of marketing services spending of the Target Merchants based on projections for the growth of the overall e-commerce healthcare in the PRC, driven by the lifting of COVID-19 pandemic restriction policies in the PRC and various economic stimulus policies introduced by the PRC government; and (c) the Company's marketing plans for onboarding additional Target Merchants and enhancing the services that the Company seeks to provide to the Target Merchants as the Company continues to deepen its strategic cooperation with merchants and expand its business scale as further discussed in the paragraph headed "2.2 The Exclusive Services Framework Agreement" in the "Letter from the Board" of the Circular.

In assessing the fairness and reasonableness of the Proposed Annual Caps, we have discussed with the Management and obtained the relevant working for review. We understand that the Management has assumed Completion to take place in or around end of 2023; therefore, the Proposed Annual Caps for the year ending 31 March 2024 represents the estimated fees receivable for the quarter ending 31 March 2024. We further understand that the Proposed Annual Caps are arrived at after discussions among the Group and the Alimama Group with a targeted 30% year-on-year growth rate of Marketing Services Fees during the next three financial years. In this regard, we have firstly considered the historical unaudited revenue of the Target Business as discussed in the paragraph headed "2.2 Financial information of the Target Group" above. Although the revenue remained largely stable at approximately RMB1,201 million and RMB1,202 million in FY2022 and FY2023 respectively, there was a notable period-on-period growth of approximately 18.2% during the three months ended 30 June 2023. We believe this may indicate a gradual increase in demand for advertising services from Target Merchants as the PRC economy progressively opened up from COVID-19 pandemic restrictions since end 2022. Secondly, we have also considered that since the COVID-19 pandemic restriction policies had been lifted in the PRC at the end of 2022, the PRC government has introduced a number of economic stimulus policies to reinforce market confidence. Examples of key measures include cutting reserve requirement ratio for banks with an effect to adding liquidity to the market, helping private businesses to access funding, and encouraging additional spending on consumer goods and cars. According to the latest data published by the National Bureau of Statistics of China, the total retail sales of consumer goods in November 2023 increased by approximately 10.1% on a period-on-period basis; such figure demonstrates potential recovery in consumer confidence when compared to the period-on-period decrease of total retail sales of consumer goods of approximately 5.9% in November 2022. Against this backdrop, we are of the view that it is reasonable to assume potential increase in demand for the Group's Marketing Materials Review Services and Value-added Services over the next three financial years.

In addition to the above, we have also considered that (i) the Group is not obliged under the Exclusive Services Framework Agreement to use up the Proposed Annual Caps; and (ii) the Proposed Annual Caps can provide flexibility for the Group to provide Marketing Materials Review Services and Value-added Services to the Alimama Group and the Target Merchants subject to their future demand. Overall, we are of the view that the Proposed Annual Caps are fair and reasonable.

*7.3 Internal control*

As noted in the "Letter from the Board" of the Circular, the Company has internal controls in place to monitor the implementation of the Proposed Annual Caps, including a written policy which sets out the proper steps for escalating information regarding the usage of the Proposed Annual Caps from the operating team to the executive officers, including monthly reports to the Company's chief executive officer, chief financial officer and general counsel and then to the independent non-executive Directors when required. The Company's operating team will have day-to-day interaction with the Target Merchants. The accounting department of the Company is primarily responsible for reviewing and monitoring the continuing connected transactions ensuring (i) the transactions to be conducted are in accordance with the pricing policy under the Exclusive Services Framework Agreement (i.e. the 20% of the Marketing Services Fees); and (ii) the annual caps of the relevant continuing connected transactions are not exceeded.

In addition, we understand that the external auditors of the Company and the independent non-executive Directors will conduct annual review on the transactions contemplated under the Exclusive Services Framework Agreement pursuant to the requirements of Chapter 14A of the Listing Rules.

In light of the above, the Management is of the view, and we concur, that the internal control measures in relation to the Exclusive Services Framework Agreement are adequate and reasonable.

*7.4 **Section summary***

Taking into account the above, we are of the view that the Exclusive Services Framework Agreement is on normal commercial terms or better and are fair and reasonable, and the Proposed Annual Caps have been fairly and reasonably arrived at.

## RECOMMENDATION

Having considered the above principal factors, we are of the view that terms of the Share Purchase Agreement, the Exclusive Services Framework Agreement and the continuing connected transactions contemplated thereunder are entered into by the Group in its ordinary and usual course of business, on normal commercial terms, in the interests of the Company and the Shareholders as a whole, are fair and reasonable so far as the Independent Shareholders are concerned, and the Proposed Annual Caps are fair and reasonable.

Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the proposed resolutions at the SGM to approve the Share Purchase Agreement, the Exclusive Services Framework Agreement and the continuing connected transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
**Altus Capital Limited**

**Chang Sean Pey**
*Responsible Officer*

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