



19 August 2020

To the Independent Board Committee and the Independent H Shareholders

Dear Sirs,

**VOLUNTARY CONDITIONAL OFFER BY
ICBC INTERNATIONAL CAPITAL LIMITED
FOR AND ON BEHALF OF THE OFFEROR
TO ACQUIRE ALL OF THE ISSUED H SHARES IN
EVOC INTELLIGENT TECHNOLOGY COMPANY LIMITED
AND
PROPOSED VOLUNTARY WITHDRAWAL OF LISTING
OF THE H SHARES OF
EVOC INTELLIGENT TECHNOLOGY COMPANY LIMITED**

INTRODUCTION

We refer to our engagement to advise the Independent Board Committee in respect of the terms of the H Share Offer and the acceptance of which and also whether the Delisting is fair and reasonable and the voting of which, particulars of which are set out in a composite offer and response document (the “**Composite Document**”) despatched to the H Shareholders dated 19 August 2020, in which this letter is reproduced. Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings as ascribed to them in the Composite Document.

The Offeror and the Company jointly announced that on 22 June 2020, ICBCI, on behalf of the Offeror, firmly intends to make a voluntary conditional cash offer to acquire all the issued H Shares at the H Share Offer Price of HK\$1.50 per H Share. As at the Latest Practicable Date, there were 308,352,000 H Shares in issue which represents 25% of the issued share capital of the Company.

Immediately prior to making the H Share Offer, the Offeror and parties acting in concert with it, being SZ Haoxuntong, owned the entirety of 924,792,000 Domestic Shares, representing 75% of the issued share capital of the Company and none of the Offeror or parties acting in concert with it legally or beneficially owns any H Shares.

The H Share Offer is subject to the fulfilment of the conditions including but not limited to the passing of the resolutions by the Independent H Shareholders approving the Delisting at the H Share Class Meeting and the Extraordinary General Meeting to be convened by at least 75% of the votes attaching to the H Shares held by the Independent H Shareholders (with the number of votes cast (by way of poll) against the resolutions is not more than 10% of the votes attaching to the H Shares held by the Independent H Shareholders) and minimum valid acceptances of the H Share Offer being received amounting to at least 90% of the H Shares held by the Independent H Shareholders. Pursuant to the Takeovers Code, such resolutions are subject to the Offeror having received valid acceptances amounting to 90% of the disinterested H Shares (i.e. the H shares held by the Independent H Shareholders).

ICBCI for and on behalf of the Offeror and in compliance with the Takeovers Code, is making the H Share Offer on the terms set out in the Composite Document in accordance with the Takeovers Code on the following basis:

For each H Offer Share HK\$1.50 in cash

Further details of the terms and conditions of the H share Offer, including the procedures for acceptance of the H Share Offer, are set out in the Composite Document.

INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising Mr. Michael Yu Tat Chi, Mr. Ling Chun Kwok, Ms. Wu Yan Nan and Mr. Zhang Da Ming, each an independent non-executive Director, who have no direct or indirect interest in the H Share Offer and the Delisting, has been established by the Company in accordance with Rule 2.1 and Rule 2.8 of the Takeovers Code to make recommendation to the Independent H Shareholders as to whether (i) the H Share Offer is fair and reasonable and as to the acceptance of the H Share Offer; and (ii) the Delisting is fair and reasonable and whether to vote in favour of such resolutions at the H Share Class Meeting and the Extraordinary General Meeting. We, Sorrento Capital Limited, have been appointed, with approval of the Independent Board Committee, as the independent financial adviser to the Independent Board Committee in respect of the H Share Offer and the Delisting.

BASIS AND ASSUMPTIONS OF OUR OPINION

In formulating our opinion, we have relied on the accuracy of the information and representations contained in the Composite Document and have assumed that all information and representations made or referred to in the Composite Document as provided by the management of the Group, the Directors, and/or the Offeror were true at the time they were made and continue to be true as at the Latest Practicable Date. We have also relied on our discussion with the management of the Group and the Directors regarding the Group and the H Share Offer, including the information and representations contained in the Composite Document. We have assumed that (i) all such statements, information, opinions and representations expressed to us by the Directors and management of the Company, for which they are solely responsible, are true, accurate and complete in all material aspects at the time they were made and up to the Latest

Practicable Date; and (ii) all the opinions and representations have been reasonably made by the Directors and the management of the Company after due and careful enquiry. If there is any material change of information in the Composite Document up to the date of the H Share Class Meeting and the Extraordinary General Meeting, we will inform the Shareholders as soon as practicable. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Group, the Offeror and their respective associates nor have we carried out any independent verification of the information supplied. We have not considered the tax implications on the H Shareholders of their acceptances or non-acceptances of the H Share Offer since these are particular to their own individual circumstances. In particular, the H Shareholders who are resident outside Hong Kong or subject to overseas taxes or Hong Kong taxation on securities dealings should consider their own tax position with regard to the H Share Offer and, if in any doubt, should consult their own professional adviser. Shareholders will be notified as soon as possible of any material change on the information contained in this letter after the Latest Practicable Date throughout the Offer Period.

We are independent from and not connected with the Company, the Offeror or any of their respective substantial shareholders, or any party acting, or presumed to be acting, in concert with any of them. Apart from the normal professional fees 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 substantial shareholders, or any party acting, or presumed to be acting, in concert with any of them. During the last two years, we have not been engaged as any financial adviser to the Company. Accordingly we considered ourselves suitable to give independent advice to the Independent Board Committee and the Independent H Shareholders in respect of the H Share Offer and the Delisting.

PRINCIPAL FACTORS AND REASONS CONCERNED

In considering the fairness and reasonableness of the terms of the H Share Offer as well as the Delisting, we have taken into account the principal factors and reasons set out below:

(i) Review of financial position/performance of the Group

The Group is principally engaged in two business segments, namely (i) the research, development, manufacturing and distribution of special computer products and the trading of electronic accessories; and (ii) the sales of development properties.

Set out below is a summary of the consolidated financial information on the Group for (i) the years ended 31 December 2017, 2018 and 2019 as extracted from the annual reports of the Company for the year ended 31 December 2018 (the “**2018 Annual Report**”) and 2019 (the “**2019 Annual Report**”, collectively the “**Annual Reports**”); and (ii) the six months ended 30 June 2020 as extracted from the interim results announcement of the Company for the six months ended 30 June 2020 (the “**2020 Interim Results Announcement**”).

	For the six months ended		For the year ended		
	30 June		31 December		
	2020	2019	2019	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(unaudited)	(unaudited)	(audited)	(audited)	(audited)
Turnover	403,301	513,455	1,688,153	1,423,139	1,305,200
Cost of sales	<u>(332,908)</u>	<u>(427,068)</u>	<u>(1,224,954)</u>	<u>(1,207,113)</u>	<u>(1,127,868)</u>
Gross profit	70,393	86,387	463,199	216,026	177,332
Other income	152,045	135,151	328,279	329,215	199,599
Selling and distribution costs	(18,748)	(16,325)	(46,107)	(42,322)	(43,871)
Administrative expenses	(46,495)	(33,708)	(144,456)	(91,160)	(59,952)
Other Operating expenses	(51,594)	(49,260)	(178,085)	(134,087)	(114,031)
Fair value gain/(loss) on investment properties	(20,127)	—	17,718	11,408	(93,740)
Fair value gain/(loss) on transfer of properties held for sale to investment properties	(355)	—	220	17,167	14,458
Finance costs	(106,421)	(98,898)	(127,055)	(98,599)	(40,078)
Income tax credit/(expenses)	<u>4,973</u>	<u>(3,264)</u>	<u>(50,559)</u>	<u>(50,708)</u>	<u>(4,236)</u>
(Loss)/profit for the year/period attributable to owners of the Company	<u>(16,329)</u>	<u>20,083</u>	<u>263,154</u>	<u>156,940</u>	<u>35,481</u>

Source: the Annual Reports and the 2020 Interim Results Announcement

Since the turnover of the Group was contributed by different products, we have further analysed them and set out below are the breakdown of turnover by product type of the Group during each of the three years ended 31 December 2019 and the six months ended 30 June 2019 and 2020 respectively.

Product type	Turnover contribution by product type				
	for the six months ended		for the year ended		
	30 June		31 December		
	2020	2019	2019	2018	2017
<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	
(unaudited)	(unaudited)	(audited)	(audited)	(audited)	
Special computer products	261,205	186,122	529,268	404,157	360,072
Electronic products and accessories					
— Computer components	—	836	—	339,032	531,501
— Mobile phones and accessories	117,497	314,446	847,487	595,570	372,615
Chemical products	—	—	72,343	—	—
Properties	<u>24,599</u>	<u>12,051</u>	<u>239,055</u>	<u>84,380</u>	<u>41,012</u>
Total Turnover	<u>403,301</u>	<u>513,455</u>	<u>1,688,153</u>	<u>1,423,139</u>	<u>1,305,200</u>

Source: the Annual Reports and the 2020 Interim Results Announcement

Comparison for the six months ended 30 June 2020 versus the six months ended 30 June 2019

During the six months ended 30 June 2020, the Group recorded a turnover of approximately RMB403.3 million as compared with that of approximately RMB513.5 million for the six months ended 30 June 2019 mainly due to the decrease in the sales of mobile phones and accessories by approximately 62.6%. According to the 2020 Interim Results Announcement, as a result of the global spread and the ongoing outbreak of the novel coronavirus epidemic, the Chinese and global economies experienced different degrees of instability. The decline in business orders from domestic customers, the suspension or slowdown of production and operation activities, and the significant decrease in the demand for automation led to a sluggish special computer market. Customers' orders placed before the epidemic requested for delay in delivery, while many projects won in bidding were delayed and were ultimately cancelled. Some products had been produced and put into storage but were unable to be delivered as customers could not receive and sign for their parcels. Nevertheless, the Company recorded an overall gross profit margin of approximately 17.5% for the six months ended 30 June 2020 which is comparable to that of approximately 16.8% for the six months ended 30 June 2019 mainly due to less sale of mobile phones and accessories which have lower profit margin comparing to special computer products.

Special computer products became the largest contributor of the Group's turnover for the six months ended 30 June 2020 which represented approximately 64.8% of the total turnover of the Group for the period. We have reviewed a sales breakdown of special computer products for the first half of 2019 and 2020 and noted that such increase in turnover was mainly due to the increased demand of computer products sold to customers relating to certain sectors such as information security and communication, railway and transportation, medical and government which are less sensitive to the recent spread of COVID-19.

Turnover from the sales of mobile phones and accessories decreased significantly by approximately 62.6% during the six months ended 30 June 2020 as compared to the same period in 2019. As advised by the Company, ordered placed by a large customer in the PRC which mainly purchased mobile phone products have decreased in light of the spread of COVID-19.

Turnover from sales of properties increased from approximately RMB12.1 million for the six months ended 30 June 2019 to approximately RMB24.6 million for the six months ended 30 June 2020. We have reviewed a breakdown of sales of properties of the Group and noted that such growth was mainly due to the increase in sales and completion, in terms of area, of properties in Wuxi, Jiangsu Province, the PRC.

During the six months ended 30 June 2020, the Company did not conduct any trading business of chemical products as the Group occasionally conducted transactions to supply chemical products to a customer for its production of packing materials in second half of 2019.

Apart from the sales of properties, we also noted from other income of the Group that the Group recorded certain rental income from its investment properties. During the six months ended 30 June 2020, the Group recorded a net rentals (being gross rental less direct operating expenses arising from lease reimbursed from tenants) of approximately RMB51.6 million, representing a decrease of approximately 18.0% as compared to that of approximately RMB62.9 million in the same period in 2019 mainly due to the increase in vacancy rate of investment properties.

Operating costs comprising selling and distribution costs and administrative expenses of the Group increased from approximately RMB50.0 million for the six months ended 30 June 2019 to approximately RMB65.2 million for the six months ended 30 June 2020 mainly due to the increase in wages and welfare benefit of sales team and administrative staff.

During the six months ended 30 June 2020, the Group recorded a fair value loss on investment properties of approximately RMB20.1 million and fair value loss on transfer of properties under development to investment properties of approximately RMB0.4 million respectively.

Finance costs increased from approximately RMB98.9 million for the six months ended 30 June 2019 to approximately RMB106.4 million for the six months ended 30 June 2020 mainly due to increase in bank borrowings during the period.

As a result of the above, the Group recorded a loss for the year attributable to owners of the Company of approximately RMB16.3 million for the six months ended 30 June 2020 as compared to the profit of approximately RMB20.1 million for the six months ended 30 June 2019.

Comparison for the year ended 31 December 2019 versus the year ended 31 December 2018

During the year ended 31 December 2019, the Group recorded a turnover of approximately RMB1.7 billion as compared with that of approximately RMB1.4 billion for the year ended 31 December 2018 mainly due to (i) increase in the sales of special computer products by approximately 31.0%; (ii) increase in the sales of mobile phones and accessories by approximately 42.3%; and (iii) increase in the sales of properties by approximately 183.3%. The overall gross profit margin of the Group increased from approximately 15.2% for the year ended 31 December 2018 to approximately 27.4% for the year ended 31 December 2019 mainly due to the improvement of profit margin in special computer products. Nevertheless, as set out in the 2019 Annual Report, since 2019, (i) more and more Chinese enterprises have been included in the Entity List released by the U.S. Department of Commerce and thus more export restrictions on integrated circuits from the U.S.; and (ii) the price of storage integrated circuits increased due to the trade conflict between Japan and South Korea, and these factors intensified the risks pertaining to the availability of and the price rise in the raw materials of special computers.

Mobile phones and accessories remained as the largest contributor of the Group's turnover for the year ended 31 December 2019 which represented approximately 50.2% of the total turnover of the Group for the same year. As advised by the Company, such products were mainly mobile phones, tablet computers, parts and accessories and the increase in sales of them was mainly due to the increased demand of a large customer in the PRC which mainly purchased 3G and 4G mobile phone products.

Turnover from sales of properties recorded the largest percentage growth for the year ended 31 December 2019 as compared to the prior year. We have reviewed a breakdown of sales of properties of the Group and noted that such growth was mainly due to the increase in sales and completion, in term of area, of properties located in Wuxi, Jiangsu Province, the PRC.

During the year ended 31 December 2019, the Group occasionally conducted trading business to supply chemical products to a customer for its production of packing materials and such transactions were not conducted in 2018.

Apart from the sales of properties, we also noted from other income of the Group that the Group recorded certain rental income from its investment properties. During the year ended 31 December 2019, the Group recorded a net rentals (being gross rental less direct operating expenses arising from lease reimbursed from tenants) of approximately RMB168.4 million, representing an increase of approximately 8.3% as compared to approximately RMB155.5 million in the prior year.

Operating costs comprising selling and distribution costs and administrative expenses of the Group increased from approximately RMB133.5 million for the year ended 31 December 2018 to approximately RMB190.6 million for the year ended 31 December 2019 mainly due to the increase in wages and welfare benefit of sales team and increase of property insurance, wages and welfare costs of administrative staff.

Total fair value gain on investment properties and transfer of properties held for sale to investment properties decreased from approximately RMB28.6 million for the year ended 31 December 2018 to approximately RMB17.9 million for the year ended 31 December 2019 mainly due to a decrease in value of properties held for sale transferred to investment properties.

Finance costs increased from approximately RMB98.6 million for the year ended 31 December 2018 to approximately RMB127.1 million for the year ended 31 December 2019 mainly due to the increase of bank borrowings.

As a result of the above, the Group recorded a profit for the year attributable to owners of the Company of approximately RMB263.2 million for the year ended 31 December 2019 as compared to that of approximately RMB156.9 million for the year ended 31 December 2018.

Comparison for the year ended 31 December 2018 versus the year ended 31 December 2017

As set out in the 2018 Annual Report, with the intensification of the trade protectionism in Western countries and the lasting time and outcome of Sino-US trade frictions remaining unclear, risks and uncertainties for the Company's future business may increase. Therefore, the Company had simultaneously developed and launched independently controllable products (e.g. computer servers for industrial applications), seeking to tap the localized markets. During the year ended 31 December 2018, the Group recorded a turnover of approximately RMB1.4 billion as compared to approximately RMB1.3 billion for the year ended 31 December 2017 mainly due to (i) increase in the sales of mobile phones and accessories by approximately 59.8%; and (ii) increase in the sales of properties by approximately 105.7%. The overall gross profit margin of the Group increased from approximately 13.6% for the year ended 31 December 2017 to approximately 15.2% for the year ended 31 December 2018 mainly due to the improvement of profit margin in special computer products.

Mobile phones and accessories remained as the largest contributor of the Group's turnover for the year ended 31 December 2018 which represented approximately 41.8% of the total turnover of the Group for the same year. As advised by the Company, such products were mainly mobile phones, tablet computers, parts and accessories and the increase in sales of them was mainly due to the demand of a large customer in the PRC which mainly purchased 3G and 4G mobile phone products.

Turnover from sales of properties recorded the largest percentage growth for the year ended 31 December 2018 as compared to the prior year. We were advised by the Company that such growth was mainly due to the sales and completion of properties located in Wuxi, Jiangsu Province, the PRC.

Apart from the sales of special computers, electronic products and accessories and properties, we also noted from other income of the Group that the Group recorded certain rental income from its investment properties. During the year ended 31 December 2018, the Group recorded a net rentals (being gross rental less direct operating expenses arising from lease reimbursed from tenants) of approximately RMB155.5 million, representing an increase of approximately 19.9% as compared to RMB129.7 million in the prior year.

Selling and distribution costs slightly decreased from approximately RMB43.9 million for the year ended 31 December 2017 to approximately RMB42.3 million for the year ended 31 December 2018 mainly due to the decrease of promotional and advertising cost.

Administrative expenses increased from approximately RMB60.0 million for the year ended 31 December 2017 to approximately RMB91.2 million for the year ended 31 December 2018 mainly due to the increase of staff benefit cost and amortisation of renovation.

Fair value gain on transfer of properties held for sale to investment properties increased from approximately RMB14.5 million for the year ended 31 December 2017 to approximately RMB17.2 million for the year ended 31 December 2018 mainly due to increase in value of properties held for sale transferred to investment properties.

Fair value gain on investment properties was recorded for the year ended 31 December 2018 as compared to loss recorded for the year ended 31 December 2017 mainly due to the change in fair value of investment properties.

Finance costs increased from approximately RMB40.1 million for the year ended 31 December 2017 to approximately RMB98.6 million for the year ended 31 December 2018 mainly due to the increase of bank borrowings.

As a result of the above, the Group recorded a profit for the year attributable to owners of the Company of approximately RMB156.9 million for the year ended 31 December 2018 as compared to that of approximately RMB35.5 million for the year ended 31 December 2017.

We have further summarised below the audited consolidated statements of financial positions of the Company as at 31 December 2017, 31 December 2018 and 31 December 2019 and the unaudited consolidated statements of financial positions of the Company as at 30 June 2020 respectively:

	As at 30 June	As at 31 December		
	2020	2019	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(audited)	(audited)	(audited)
Non-current assets				
Investment properties	2,093,699	2,112,208	2,044,931	1,708,894
Property, plant and equipment	797,186	804,106	760,954	870,921
Others	<u>112,704</u>	<u>119,541</u>	<u>66,908</u>	<u>66,744</u>
	<u>3,003,589</u>	<u>3,035,855</u>	<u>2,872,793</u>	<u>2,646,559</u>
Current assets				
Properties held for sale	1,447,243	1,441,438	964,455	353,761
Properties under development	654,161	623,257	863,600	1,325,966
Trade receivables	380,849	295,607	131,211	149,570
Bills receivable	122,210	115,357	34,115	51,714
Inventories	167,856	71,234	37,301	31,874
Cash and cash equivalents	1,661,926	1,281,633	1,079,953	681,100
Others	<u>216,937</u>	<u>324,507</u>	<u>272,262</u>	<u>351,164</u>
	<u>4,651,182</u>	<u>4,153,033</u>	<u>3,382,897</u>	<u>2,945,149</u>
Total assets	7,654,771	7,188,888	6,255,690	5,591,708
Non-current liabilities				
Bank borrowings	2,090,830	1,760,018	1,109,496	795,172
Others	<u>441,159</u>	<u>449,485</u>	<u>358,698</u>	<u>333,408</u>
	<u>2,531,989</u>	<u>2,209,503</u>	<u>1,468,194</u>	<u>1,128,580</u>
Current liabilities				
Trade payables	940,301	1,000,062	740,185	729,996
Bank borrowings	920,000	781,225	1,268,081	1,300,880
Contract liabilities	86,147	104,942	195,034	—
Others	<u>607,902</u>	<u>515,482</u>	<u>324,852</u>	<u>363,893</u>
	<u>2,554,350</u>	<u>2,401,711</u>	<u>2,528,152</u>	<u>2,394,769</u>
Total liabilities	<u>5,086,339</u>	<u>4,611,214</u>	<u>3,996,346</u>	<u>3,523,349</u>
Net assets	<u>2,568,432</u>	<u>2,577,674</u>	<u>2,259,344</u>	<u>2,068,359</u>

Source: the Annual Reports and the 2020 Interim Results Announcement

Since the majority of the assets of the Group was relating to properties, we have further listed out the portfolio of the Group's properties with reference to the property valuation report set out in Appendix III to the Composite Document below.

No.	Details of properties	Location	Total gross floor area (approx. sq.m.)	Market value in existing state (RMB)/approx. area (sq.m.) as at 30 June 2020					Total market value in existing state as at 30 June 2020 (RMB)
				Properties held for sale	Properties held and occupied by the Group	Properties held for investment	Properties held under development	Properties held for future development	
1.	Two units in a factory building	Futian, Shenzhen, Guangdong Province	1,152	—	—	31,000,000 (1,152 sq.m.)	—	—	31,000,000
2.	An office building with other facilities and car parking spaces	Nanshan, Shenzhen, Guangdong Province	61,523	—	217,800,000 (9,897 sq.m.)	762,900,000 (51,626 sq.m.)	—	—	980,700,000
3.	An office building, two factory buildings and an apartment building with car parking spaces	Bao'an, Shenzhen, Guangdong Province	245,482	—	198,000,000 (55,666 sq.m.)	940,000,000 (189,816 sq.m.)	—	—	1,138,000,000
4.	60 units in a residential building project	Bao'an, Shenzhen, Guangdong Province	5,311	—	No Commercial Value	—	—	—	No Commercial Value
5.	An industrial project which a factory building with other facilities are on a parcel of land for further development	Gangzha, Nantong, Jiangsu Province	230,019	—	272,000,000 (72,893 sq.m.)	—	—	17,000,000 (planned 157,126 sq.m.)	289,000,000
6.	Two office buildings with retail units and car parking spaces	Binjiang, Hangzhou, Zhejiang Province	65,511	—	15,100,000 (3,680 sq.m.)	254,600,000 (61,831 sq.m.)	—	—	269,700,000
7.	A commercial and office building with retail units, other facilities and car parking spaces	Huaqiao, Kunshan, Jiangsu Province	162,055	—	—	—	349,000,000 (planned 162,055 sq.m.)	—	349,000,000
8.	A residential and commercial development with car parking spaces of which certain units of completed Phases 1 and 2 remained unsold and Phase 3 to be further developed for hotel and convention centre	Dianshanhu, Kunshan, Jiangsu Province	246,444	1,170,700,000 (133,129 sq.m.)	7,600,000 (914 sq.m.)	21,300,000 (2,563 sq.m.)	—	81,000,000 (109,838 sq.m.)	1,280,600,000
9.	A commercial apartment building, two office buildings, a shopping mall and car parking spaces. A site being developed for office use and car parking spaces	Xishan, Wuxi, Jiangsu Province	239,001	273,900,000 (35,224 sq.m.)	121,640,000 (53,112 sq.m.)	682,560,000 (88,469 sq.m.)	183,300,000 (62,196 sq.m.)	—	1,261,400,000
10.	Commercial apartment units remained unsold and sold but not delivered	Xishan, Wuxi, Jiangsu Province	59,023	810,000,000 (59,023 sq.m.)	—	—	—	—	810,000,000
Total				<u>2,254,600,000</u>	<u>832,140,000</u>	<u>2,692,360,000</u>	<u>532,300,000</u>	<u>98,000,000</u>	<u>6,409,400,000</u>

The non-current assets of the Group comprised mainly its investment properties, property, plant and equipment and the current assets of the Group comprised mainly its properties held for sale, properties under development, cash and cash equivalents and trade receivables. The decrease in non-current assets for the six months ended 30 June 2020 was mainly due to the decrease in carrying value of investment properties after revaluation and property, plant and

equipment as a result of depreciation. The non-current liabilities of the Group comprised mainly its bank borrowings. The current liabilities of the Group comprised mainly its trade payables and bank borrowings. As at 30 June 2020, the cash and bank balances of the Group was approximately RMB1.7 billion, representing an increase of approximately 30.8% as compared with approximately RMB1.3 billion as at 31 December 2019 mainly due to the net cash generated from operating activities and obtainment of new proceeds from bank borrowings. The net assets of the Group was approximately RMB2.6 billion as at 31 December 2019 and 30 June 2020.

(ii) Information and principal business of the Offeror

The Offeror was incorporated on 5 February 1997 and is validly existing under the laws of the PRC as a company with limited liability. Its principal business activities include investment holding, development, production and trading of computer and electronic products. The Offeror is held as to 70.5% by Mr. Chen Zhi Lie, who is an executive Director, the ultimate controlling shareholder, the chairman and the founder of the Company, and 29.5% by Ms. Wang Rong, the spouse of Mr. Chen Zhi Lie. As at the Latest Practicable Date, the directors of the Offeror are Mr. Chen Zhi Lie, Ms. Wang Rong and Ms. Chen Xi and the supervisor of the Offeror is Mr. Wang Jiajie.

(iii) Intention of the Offeror in relation to the Group

Set out below are the Offeror's intention in relation to the Group as extracted from "Letter from ICBCI" in the Composite Document:

Business of the Group

The Offeror intends to continue with the existing business of the Group and does not intend to make any material changes to the current business operations of the Group following completion of the H Share Offer. It is also the intention of the Offeror that there will not be any material changes in the management or employees of the Group as a result of the H Share Offer; and after the Delisting, the Company will not seek for listing of its Shares on any other stock exchanges (including the stock exchanges in the PRC).

Delisting

Upon the H Share Offer becoming unconditional, the Company will make an application for the Delisting in accordance with Rule 6.12 of the Listing Rules. The H Shareholders will be notified by way of an announcement of the dates for the last day for dealing in the H Shares and on which the Delisting will become effective. According to the Letter from the Board, the Offeror does not intend the H Shares to remain listed on the Stock Exchange after the close of the H Share Offer.

No Right of Compulsory Acquisition

The Offeror has no rights under the laws of the PRC and the Articles of the Company to compulsorily acquire the H Shares that are not tendered for acceptance pursuant to the H Share Offer. Accordingly, the Independent H Shareholders are reminded that if they do not accept the H Share Offer and the H Share Offer subsequently becomes unconditional in all respects, and the H Shares are delisted from the Stock Exchange, this will result in the Independent H Shareholders holding securities that are not listed on the Stock Exchange and the liquidity of the H Shares may be severely reduced. In addition, the Company may or may not continue to be subject to the Takeovers Code after the completion of the H Share Offer depending on whether it remains as a public company thereafter.

In this regard, the Offeror has applied to the Executive for a waiver from the requirements under Rule 2.2(c) of the Takeovers Code.

(iv) Reasons for and benefits of the H Share Offer and the Delisting

(a) Uncertain market conditions and the Group's prospect

As stated in the 2019 Annual Report, the Group's business and future prospects could be materially affected by certain risks and uncertainties. For example, as the Group is engaged in the development and production of computer, communication and electronic hardware which are technology-intensive and capital-intensive, there is uncertainty as to whether the Group can continue to succeed in research and development and maintain its competitive edge in technology. Furthermore, as stated in the 2019 Annual Report, the outbreak of coronavirus epidemic has caused increase in production cost in Mainland China, delay in supply of materials, production and sales schedule. As stated in the 2020 Interim Results Announcement, the Group recorded a decrease in turnover by approximately 21.5% and a loss attributable to the owners of the Company of RMB16.3 million. As a result of the global spread and the ongoing outbreak of the novel coronavirus epidemic, the Chinese and the global economies experienced different degrees of instability. The decline in business orders from domestic customers, the suspension or slowdown of production and operation activities, and the significant decrease in the demand for automation led to a sluggish special computer market. There are also increasing risks pertaining to the availability of and price rise in import of foreign integrated circuits, which poses relatively serious concerns to the continuous production and technological innovation of the Group's products.

As set out in the Letter from ICBCI, given such uncertainties to the Group's prospects and future financial performance, investors may have different expectations and requirements with regard to the return on investment of the Group, which may differ from the development plan of the Group in the long run.

The H Share Offer, if completed, will enable the Company to have greater flexibility to make timely investment decisions and to focus on the long term development of the Group.

The Offeror also considers that the Delisting will facilitate business integration between the Offeror and the Company, giving the Offeror more flexibility to support the future business development of the Company without being subject to regulatory restrictions and compliance obligations associated with the related obligations arising from the listing status of the Company on the Stock Exchange. After the Delisting, the relevant listing costs and expenses will also be saved.

We have reviewed the 2020 Interim Results Announcement to analyse its recent performance of the Group and noted that the unaudited turnover and profit for the six months ended 30 June 2020 decreased by approximately 21.5% as compared to that for the same period in prior year and net loss was recorded for the six months ended 30 June 2020 as compared to profit for the same period in prior year. As advised by the Company, utilisation of the Group's production capacity in respect of its special computer products and electronic accessories decreased in the first six months in 2020 as compared to the same period in 2019 mainly due to the longer time required for the Group to receive their materials from suppliers and the suspension of production post outbreak of COVID-19 and hence, profitability was adversely affected. As regard the near future, the Group will use their best endeavour to negotiate with customers for new orders as well as suppliers for stable supplies. However, these are subject to the recovery of economic activities in the PRC which will mainly depend on the trading relationship between the PRC and U.S. and control of COVID-19 and the outcome and timing of which the Board is unable to predict. As regard to the sales of properties of the Group, we were advised by the Company that due to the current uncertain economic environment, progress of the Group's construction as well as the completion of properties have been and would continue to be adversely affected.

For the investment properties of the Group, we have reviewed a list of tenancy and noted that most of the tenure are expected to expire by 2020 and 2021. Under the uncertain economic environment and in the absence of long term tenancy, the Company considers that the continuance of existing leases of the Group's properties and level of recurring rental income in future may also be affected. As advised by the Company, they will continue to review the status of the uncertain business environment and devise strategies on their business and use of the Group's resources for long term development of the Group but no concrete plan has been formulated as at the Latest Practicable Date.

(b) Realisation of investment by the Independent H Shareholders

For the H Shareholders, the Offeror believes that the H Share Offer provides a compelling opportunity to dispose of their H Shares for the following reasons:

- **Premium valuation:** the H Share Offer provides an opportunity for the H Shareholders to sell their H Shares and receive cash at a price above the prevailing market price. In particular, closing price of the H Shares has never exceeded the H Share Offer Price for almost two years-time. The H Share Offer Price represented a premium of approximately 105.5% over the last 60 trading days immediately prior to and including the Last Trading Date.
- **Certain and immediate value:** since trading volume in the H Shares has been thin for most of the time during a relatively long period, it may be challenging for the H Shareholders to dispose of their H Shares without adversely affecting the market price of the H Shares. The monthly total trading volume of the H Shares (as a percentage to total issued H Shares) during 1 January 2020 to 31 May 2020 ranged from 0.7% to 2.1% only. The H Share Offer presents an opportunity for the H Shareholders to dispose of their H Shares and exit their investment for cash proceeds which may be reinvested in alternative investments with higher quality.
- **Avoidance of holding unlisted shares:** assuming the H Share Offer will become unconditional, the Company will make an application for the listing of the H Shares to be withdrawn from the Stock Exchange in accordance with Rule 6.12 of the Listing Rules. If the H Shares are delisted from the Stock Exchange, the H Shares will become securities that are not listed or quoted on any stock exchange and the liquidity of the H Shares will be severely reduced.

The H Share Offer Price of HK\$1.50 per H Offer Share represents:

- (i) a premium of approximately 64.8% over the closing price of HK\$0.91 per H Share as quoted on the Stock Exchange on 15 June 2020 prior to the trading halt of the H Shares pending from the release of the Rule 3.5 Announcement;
- (ii) a premium of approximately 82.9% over HK\$0.82 which is the average closing price per H Share as quoted on the Stock Exchange for the five consecutive trading days up to and including the Last Trading Date;
- (iii) a premium of approximately 94.8% over HK\$0.77 which is the average closing price per H Share as quoted on the Stock Exchange for the 10 consecutive trading days up to and including the Last Trading Date;

- (iv) a premium of approximately 100.0% over HK\$0.75 which is the average closing price per H Share as quoted on the Stock Exchange for the 30 consecutive trading days up to and including the Last Trading Date;
- (v) a premium of approximately 105.5% over the average closing price of approximately HK\$0.73 per H Share as quoted on the Stock Exchange for the last 60 trading days immediately prior to and including the Last Trading Date;
- (vi) a premium of approximately 100.0% over the average closing price of approximately HK\$0.75 per H Share as quoted on the Stock Exchange for the last 90 trading days immediately prior to and including the Last Trading Date;
- (vii) a premium of approximately 89.9% over the average closing price of approximately HK\$0.79 per H Share as quoted on the Stock Exchange for the last 180 trading days immediately prior to and including the Last Trading Date;
- (viii) a discount of approximately 35.6% to the audited consolidated net asset value of the Company of approximately RMB2.09 per Share as at 31 December 2019 (equivalent to approximately HK\$2.33 per Share based on the exchange rate of HK\$1.00 to RMB0.89551 according to the rate cited from People's Bank of China as at the Latest Practicable Date);
- (ix) a discount of approximately 35.4% to the unaudited consolidated net asset value of the Company of approximately RMB2.08 per Share as at 30 June 2020 according to the 2020 Interim Results Announcement (equivalent to approximately HK\$2.32 per Share based on the exchange rate of HK\$1.00 to RMB0.89551 according to the rate cited from People's Bank of China as at the Latest Practicable Date);
- (x) a discount of approximately 52.2% to the adjusted unaudited consolidated net asset value per Share of the Company (the "**Adjusted Unaudited NAV per Share**") of approximately RMB2.81 per Share as at 30 June 2020 (equivalent to approximately HK\$3.14 per Share based on the exchange rate of HK\$1.00 to RMB0.89551 according to the rate cited from People's Bank of China as at the Latest Practicable Date) which is arrived at after taking into account (i) the unaudited net asset value of the Company attributable to the Shareholders as at 30 June 2020; and (ii) the revaluation surplus property interest over the net book value of the properties as at 30 June 2020 net of estimated deferred taxation arising from the revaluation surplus (details of the Adjusted Unaudited NAV and property valuation are set out in the Appendix II and Appendix III to the Composite Document respectively); and

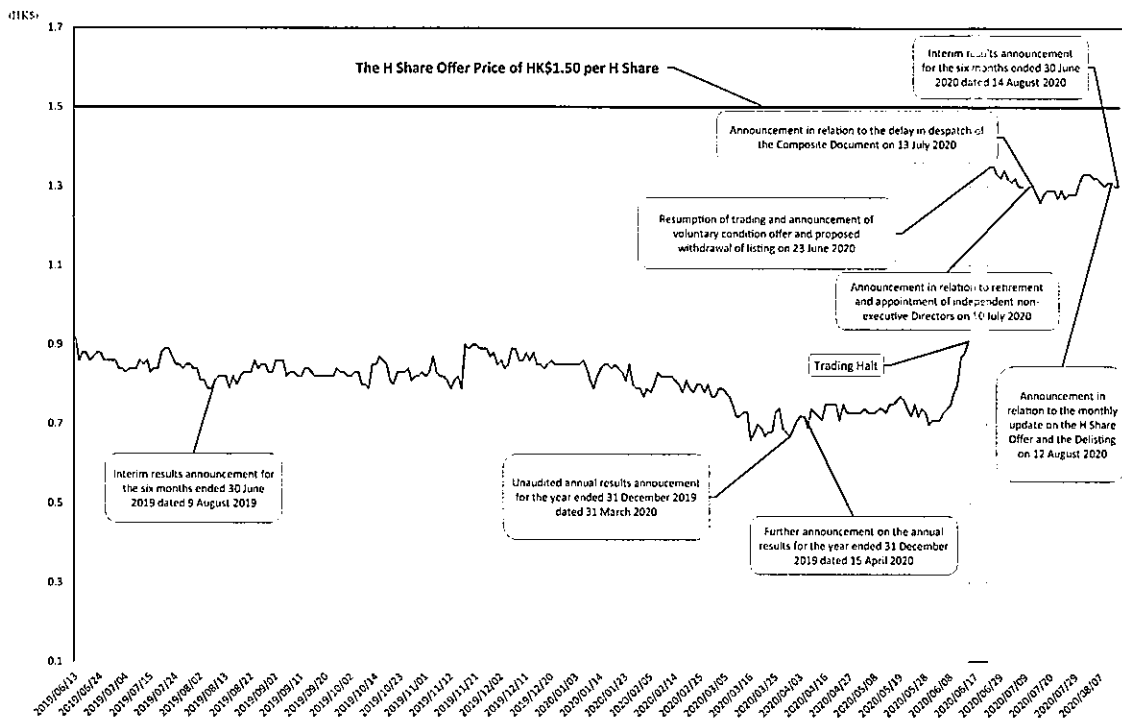
- (xi) a premium of approximately 15.4% over the closing price of HK\$1.30 per H Shares as quoted on the Stock Exchange as at the Latest Practicable Date.

We have assessed the reasonableness of the H Share Offer Price by referencing to (i) the historical trading prices of the H shares; (ii) the trading volume of the H Shares; (iii) market comparable analysis; and (iv) precedents of privatisation transactions and set out in the following context of this letter.

(v) **Historical Share price performance**

For the purpose of further comparing the H Share Offer Price of HK\$1.50 per H Share with the market price of the H Shares, we have plotted the closing price level of the Shares traded on the Stock Exchange for a 12 month period (“Pre-Announcement Period”) from 13 June 2019 to 15 June 2020, being the date on which the trading of the H Shares was halted in the morning trading session, and further up to the Latest Practicable Date (the “Post-Announcement Period”, collectively the “Review Period”) as follows:

Closing price of the H Shares during the Review Period



Source: The Stock Exchange

(a) Pre-Announcement Period

As shown in the chart above, closing prices of the H Shares were below the H Share Offer Price during the entire Pre-Announcement Period and fluctuated between HK\$0.66 per H Share and HK\$0.92 per H Share. During this period, the Company announced (i) its unaudited interim results for the six months ended 30 June 2019 on 9 August 2019; (ii) its unaudited annual results for the year ended 31 December 2019 on 31 March 2020; and (iii) its further information in relation to its audited annual results for the year ended 31 December 2019 on 15 April 2020 that there was no change in audited results as compared with the unaudited ones previously announced.

Since 10:07 a.m. on 15 June 2020, trading of the Shares was halted pending the publication of an announcement by the Company pursuant to Takeovers Code containing certain inside information of the Company. Before the time of trading halt, the closing price of the H Shares was HK\$0.91 per H Share which was almost the highest closing price during the Pre-Announcement Period.

(b) Post-Announcement Period

At 9:00 a.m. on 23 June 2020, trading of the H Shares was resumed after the publication of the Rule 3.5 Announcement and the closing price of the H Share reached HK\$1.35 per H Share. Since then the closing prices of the H Shares have been generally on a decreasing trend but remained above HK\$1.26 per H Share. On 10 July 2020, the Company announced that Mr. Wen Bing and Mr. Dong Li Xin retired as the independent non-executive Directors and Ms. Wu Yan Nan and Mr. Ling Chun Kwok were appointed as the independent non-executive Directors with effect from 29 June 2020 and both Ms. Wu Yan Nan and Mr. Ling Chun Kwok became members of the Independent Board Committee. On 13 July 2020, the Company announced the delay in despatch of the Composite Document. On 12 August 2020, the Company announced the monthly update on the H Share Offer and the Delisting. On 14 August 2020, the Company announced its unaudited interim results for the six months ended 30 June 2020.

As confirmed by the Directors, save for the release of the Rule 3.5 Announcement, the Directors are not aware of any specific event that caused the substantial increases in prices of the H Shares immediately after the publication of the Rule 3.5 Announcement. Hence, we consider that the aforesaid increases in prices of the H Shares reflected the market's reaction to the H Share Offer.

(vi) **Historical trading volume of the Shares**

The following table sets out the historical monthly trading volume of the H Shares and the percentage of the number of H Shares traded compared to the total number of the H Shares in issue during the Review Period:

Months/period	Number of trading days	Total trading volume (Number of H Shares)	Average daily trading volume (Number of H Shares) (Note 1)	% of average daily trading volume to the total number of H Shares in issue/total number of H Shares held by the Independent H Shareholders (%) (Note 2)
2019				
June (Note 3)	12	2,484,000	207,000	0.067
July	22	3,608,320	164,015	0.053
August	22	3,836,000	174,364	0.057
September	21	1,889,495	89,976	0.029
October	21	2,280,000	108,571	0.035
November	21	9,252,000	440,571	0.143
December	20	2,664,800	133,240	0.043
2020				
January	20	6,329,360	316,468	0.103
February	20	2,283,600	114,180	0.037
March	22	4,560,000	207,273	0.067
April	19	4,712,000	248,000	0.080
May	20	5,486,000	274,300	0.089
June (Note 4)	16	40,623,920	2,538,995	0.823
— Prior to trading halt	11	7,435,920	675,993	0.219
— After resumption in trading	5	33,188,000	6,637,600	2.153
July	22	25,048,640	1,138,575	0.369
August (up to the Latest Practicable Date)	10	6,524,000	652,400	0.212

Source: The Stock Exchange

Notes:

1. Average daily trading volume is calculated by dividing the total trading volume for the month/period by the number of trading days during the month/period which exclude any trading day on which trading of the H Shares on the Stock Exchange was suspended for the whole day, if any.
2. The calculation is based on the average daily trading volume of the H Shares divided by the balance of total number of issued H Share at the end of the respective month/period. As set out in the Letter from the Board, none of the Offeror or parties acting in concert with it legally or beneficially owns any H Shares.

3. Only 12 trading days are taken into account as the Review Period commences from 13 June 2019.
4. Trading in the H Shares was halted for around six trading days from 10:07 a.m. on 15 June 2020 to 22 June 2020 pending the publication of the Rule 3.5 Announcement.

As illustrated in the table above, the average daily trading volume of the H Shares for the respective month/period was generally thin during the Pre-Announcement Period and ranged from approximately 89,976 H Shares in September 2019 to approximately 675,993 H Shares recorded in June 2020, representing approximately 0.029% to approximately 0.219% of the total number of the H Shares in issue as at the end of the relevant month/period. Such percentages also represent the average daily trading volume of the H Shares held by the Independent H Shareholders during the Pre-Announcement Period as none of the Offeror or parties acting in concert with it legally or beneficially owns any H Shares according to the Letter from the Board.

The Rule 3.5 Announcement was published on 23 June 2020 and trading in the H Shares was resumed from 9:00 a.m. on 23 June 2020. During the five trading days post the publication of the Rule 3.5 Announcement, the average daily trading volume of the H Shares reached approximately 6,637,600 H Shares. As a result, the trading volume in June 2020 was higher than all other months during the Review Period. The average daily trading volume of the H Shares decreased to approximately 1,138,575 H Shares in July 2020 and approximately 652,400 H Shares in August 2020 (up to the Latest Practicable Date) respectively but remained higher than those during the Pre-Announcement Period (except June 2020).

The H Shareholders should be mindful as to whether there will be sufficient liquidity in the H Shares for those who wish to realise part or all of their investment in the Company at the prevailing market price of the H Shares and whether their disposal of H Shares will exert a downward pressure on the market prices of the H Shares.

(vii) Market comparable analysis

The Group is principally engaged in two business segments, namely (i) the research, development, manufacturing and distribution of special computer products and the trading of electronic accessories; and (ii) the sales of development properties. According to the 2019 Annual Report and the 2020 Interim Results Announcement, (i) substantial portion of the turnover of the Company for the year ended 31 December 2019 and the six months ended 30 June 2020 was contributed by the sales of special computer products and electronic products and accessories; and (ii) the majority of the total assets of the Company as at 31 December 2019 and 30 June 2020 were investment properties, properties under development and properties held for sale. As such we have conducted research on the companies listed on the Stock Exchange with similar business model, products, geographic markets and size but there is no companies listed on the Stock Exchange principally engaged in the sales of the same product mix (i.e. mainly special computers, electronic products and accessories and properties) as at the Latest Practicable Date. Hence, we have conducted research on two different industries, namely electronics (including information technology hardware and

equipment, computers, mobile phones and related parts) and property development and investment which are relevant to the Group's principal businesses, and exhaustively identified (i) six companies listed on the Stock Exchange which are principally engaged in sales of electronic products; and (ii) 17 companies listed on the Stock Exchange which are principally engaged in development and investment of properties. In selecting these 23 companies, we take into account those (i) with not less than 90% of revenue generated from an industry similar to those of the Group in the latest financial year and interim period (if announced); (ii) with not less than 90% of revenue generated from the PRC market as all the turnover of the Group are located in the PRC; and (iii) with market capitalisation of not more than HK\$2.0 billion as at the Latest Practicable Date which we consider a reasonable benchmark for size comparison as the hypothetical market capitalisation of the Company was approximately HK\$1.60 billion as at the Latest Practicable Date (based on the closing price of the H Shares and the total number of the Shares in issue (including both Domestic Shares and H Shares) as at the Latest Practicable Date).

Nevertheless, among the abovementioned six companies principally engaged in sales of electronic products, we noted that trading of shares of China Trends Holdings Limited (stock code: 8171) and Global Token Limited (stock code: 8192) on the Stock Exchange have been suspended since March 2020 and October 2019 respectively. Therefore we consider that their respective closing prices on last trading days may not reflect the current position of these two companies and hence the market capitalisation and market multiple valuation of these two companies are not meaningful for comparison. In view of the similarity of the industry, geographic market and market capitalisation of the remaining four companies principally engaged in sales of electronic products (the "**Electronic Comparables**") and the abovementioned 17 companies principally engaged in development and/or investment of properties (the "**Property Comparables**", together with the Electronic Comparables, the "**Market Comparables**") and those of the Company, we consider the Market Comparables are fair and representative sample for comparison to the Company. Shareholders should note that the principal activities, market capitalisations, profitability and financial positions of each of the Market Comparables are different which may affect how they are actually valued and their respective market multiple valuations in the market. Therefore, the comparison with the Market Comparables set out in this letter is solely for general reference to the market trend when assessing the fairness and reasonableness of the H Share Offer Price.

In assessing the fairness and reasonableness of the H Share Offer Price, we have performed a price-to-earnings ratio (the "**P/E Ratio**") analysis, which is one of the most widely used and accepted methods for valuing a business with recurrent income. However, as property related assets (i.e. property, plant and equipment, right-of-use assets and properties under development) of all the Electronic Comparables represent relatively small percentages of their total assets as at the end of their respective latest financial year or interim period when comparing to the Group, we consider the net asset approach is not an appropriate approach to assess the fairness and reasonableness of the H Share Offer Price with reference to the Electronic Comparables. On the other hand, as the Group did not declare or distribute any

dividend for the last financial year, we consider that the price-to-dividends approach is not applicable in assessing the fairness or reasonableness of the H Share Offer Price in this case. Details of our analysis on the P/E Ratios of the Company and the Electronic Comparables are set out in the table below.

The following table sets out the Electronic Comparables we consider as reasonable benchmarks for the Group:

Company/Stock Code	Principal business activities	Market capitalisation (HKS' million) (Note 1) (a)	Profit (Loss) attributable to shareholders during the latest full financial year (HKS' million) (b)	Net asset value attributable to shareholders as at the end of latest full financial year or interim period (HKS' million) (Note 2) (c)	P/E Ratios (times) (a)/(b)
Zhuoxin International Holdings Ltd (8266)	Trading of electronic parts and components in relation to display modules and touch panel modules, property development and property investment.	75.41	(42.21)	19.41	N/A
Changhong Jiahua Holdings Limited (3991)	Sales of Information and Communication Technology (ICT) products (e.g. information technology products and smartphones) and provision of professional integrated ICT solutions and services.	1,178.27	289.17	1,902.06	4.07
Tongda Hong Tai Holdings Limited (2363)	Manufacture and sales of casings of notebook and tablet.	71.86	(68.12)	299.06	N/A
Zhejiang Rui Yuan Intelligent Control Technology Company Limited (8249)	Sales of controller systems for electronic equipment and electronic component and subassembly for electronic appliances in the PRC.	31.41 (Note 3)	(7.64)	(43.94)	N/A
			Statistics:	Min	4.07
				Max	4.07
				Mean	4.07
				Median	4.07
The Company		1,603.09	293.86	2,868.12 (based on the 2020 Interim Results Announcement)	6.29 (Note 4)

Source: the Stock Exchange

Notes:

1. Unless otherwise specified, market capitalisation is calculated based on the closing price of shares and the number of shares in issue of the Electronic Comparables as at the Latest Practicable Date.
2. The net asset value attributable to shareholders refers to the latest published accounts set out in annual reports or interim results announcement/interim reports of the Electronic Comparables.
3. The market capitalisation is calculated based on the closing price of shares on the Stock Exchange and the total number of shares (i.e. both H shares and domestic shares) in issue of Zhejiang Rui Yuan Intelligent Control Technology Company Limited as at the Latest Practicable Date.
4. Based on the H share Offer Price of HK\$1.50 per H Share and the earning per Share of approximately RMB0.213 (calculated based on the consolidated audited profit for the year attributable to owners of the Company of approximately RMB263.15 million for the year ended 31 December 2019 and the 1,233,144,000 Share issued (both Domestic Shares and H Shares) as at the Latest Practicable Date).
5. In the calculation above, figures denominated in RMB as stated in the relevant annual reports or interim results announcement/interim reports of the Electronic Comparables are translated into HK\$ at the exchange rate of HK\$1.00 to RMB0.89551 according to the rate cited from People's Bank of China as at the Latest Practicable Date.

As illustrated in the table above, the P/E Ratio of the Electronic Comparable with profit recorded (i.e. Changhong Jiahua Holdings Limited) is approximately 4.07 times as at the Latest Practicable Date which is lower than the P/E Ratio of the Company of approximately 6.29 times as implied by the H Share Offer Price. Since the majority of the total assets of the Company were relating to its properties held for sale and investment properties, we have further assessed the fairness and reasonableness of the H Share Offer Price by comparing to the P/E Ratios and price-to-book ratio (the "**P/B Ratios**") of the Property Comparables with reference to the unaudited net asset value per Share of the Group as at 30 June 2020 and the Adjusted Unaudited NAV per Share (details of the Adjusted Unaudited NAV and property valuation are set out in the Appendix II and Appendix III to the Composite Document).

Company/Stock Code	Principal business activities	Market capitalisation (HKS' million) (Note 1) (a)	Profit (Loss)	Net asset value	P/E Ratios (times) (a)/(b)	P/B Ratios (times) (a)/(c)
			attributable to shareholders during the latest full financial year (HKS' million) (b)	attributable to shareholders as at the end of latest full financial year or interim period (HKS' million) (Note 2) (c)		
Million Cities Holdings Limited (2892)	Property development and property investment.	855.00	20.05	913.71	42.65	0.94
Jiande International Holdings Limited (0865)	Property development.	700.56	37.01	739.33	18.93	0.95
Chen Xing Development Holdings Limited (2286)	Property development.	840.00	118.40	1,391.57	7.09	0.60
Sino Harbour Holdings Group Limited (1663)	Property development.	288.29	63.60	1,528.95	4.53	0.19
Fullsun International Holdings Group Co., Limited (0627)	Property development and property investment business.	772.85	152.86	2,175.09	5.06	0.36
Guangdong Land Holdings Limited (0124)	Property development and property investment.	1,848.46	341.06	4,763.85	5.42	0.39
Ever Reach Group (Holdings) Company Limited (3616)	Property development.	1,128.00	327.23	1,357.83	3.45	0.83
China Uptown Group Company Limited (2330)	Property development business and investment and trading of raw sugar.	125.90	82.84	705.10	1.52	0.18
Zhong An Group Limited (0672)	Property development, property leasing and hotel operations.	1,578.03	711.49	9,420.66	2.22	0.17
Man Sang International Limited (0938)	Development, sales and leasing of properties.	921.27	(190.84)	470.48	N/A	1.96
Hailan Holdings Limited (2278)	Property development and property investment.	1,269.00	(21.10)	2,068.59	N/A	0.61
Weiyee Holdings Limited (1570)	Property development and the manufacture and trading of clean room equipment.	880.64	(34.49)	1,622.07	N/A	0.54
Hydoo International Holding Limited (1396)	Project development and operation and management of properties.	1,837.63	(302.87)	5,508.32	N/A	0.33
Great China Properties Holdings Limited (0021)	Property development and property investment.	397.52	(3.55)	941.98	N/A	0.42

Company/Stock Code	Principal business activities	Market capitalisation (HK\$' million) (Note 1) (a)	Profit (Loss) attributable to shareholders during the latest full financial year (HK\$' million) (b)	Net asset value attributable to shareholders as at the end of latest full financial year or interim period (HK\$' million) (Note 2) (c)	P/E Ratios (times) (a)/(b)	P/B Ratios (times) (a)/(c)
Xiwang Property Holdings Company Limited (2088)	Property development.	135.24	(58.07)	643.34	N/A	0.21
Coastal Greenland Limited (1124)	Property development, property investment, project management services, and project investment services.	402.16	(336.78)	4,363.38	N/A	0.09
China Properties Group Limited (1838)	Property development and property investment.	877.40	(316.00)	41,614.92	N/A	0.02
			Statistics:	Min	1.52	0.02
				Max	42.65	1.96
				Mean	10.10	0.52
				Median	5.06	0.39
The Company		1,603.09	293.86	2,868.12	6.29	0.64
				(based on the 2020 Interim Results Announcement)	(Note 3)	
				3,864.70		0.48
				(based on the Adjusted Unaudited NAV set out in the Appendix II to the Composite Document)		

Source: the Stock Exchange

Notes:

1. Unless otherwise specified, market capitalisation is calculated based on the closing price of shares and the number of shares in issue of the Property Comparables as at the Latest Practicable Date.
2. The net asset value attributable to shareholders refers to the latest published accounts set out in annual reports or interim results announcement/interim reports of the Property Comparables.
3. Based on the H share Offer Price of HK\$1.50 per H Share and the earning per Share of approximately RMB0.213 (calculated based on the consolidated audited profit for the year attributable to owners of the Company of approximately RMB263.15 million for the year ended 31 December 2019 and the 1,233,144,000 Share issued (both Domestic Shares and H Shares) as at the Latest Practicable Date).

4. In the calculation above, figures denominated in RMB as stated in the relevant annual reports or interim results announcement/interim reports of the Property Comparables are translated into HK\$ at the exchange rate of HK\$1.00 to RMB0.89551 according to the rate cited from People's Bank of China as at the Latest Practicable Date.

As illustrated in the table above, the P/E Ratios of the Property Comparables as at the Latest Practicable Date range from approximately 1.52 times to approximately 42.65 times with eight Property Comparables recorded net loss during their respective latest financial years. The P/E Ratio of the Company of approximately 6.29 times as implied by the H Share Offer Price is above the median P/E Ratio of the Property Comparables. The P/B Ratios of the Property Comparables as at the Latest Practicable Date range from approximately 0.02 time to approximately 1.96 time with mean of approximately 0.52 time and median of approximately 0.39 time. The P/B Ratio of the Company of approximately 0.64 time as implied by the H Share Offer Price over the unaudited net asset value per Share based on the 2020 Interim Results Announcement and the P/B Ratio of the Company of approximately 0.48 time as implied by the H Share Offer Price over the Adjusted Unaudited NAV per Share are above the median P/B Ratio of the Property Comparables. On that basis, we consider that the H Share Offer Price is fair and reasonable.

(viii) Precedents of privatisation transactions

To further assess the fairness and reasonableness of the H Share Offer Price, we have exhaustively searched for completed privatisation transactions (for our analysis purpose, we excluded proposals without cash consideration) of which joint announcements setting out the offer prices/cancellation prices for ordinary shares were made by Hong Kong listed companies from 16 June 2018 (being two years prior to the Last Trading Date) up to the Latest Practicable Date. We found 19 privatisation cases (the "Privatisation Cases") which meet the aforesaid criteria for comparison.

Company/Stock code used before privatization	Date of relevant joint announcement	Premium of the offer price/the cancellation price over closing price per share on last trading day pursuant to the joint announcement	Premium of the offer price/the cancellation price over average closing price per share for the 30 trading days up to and including the last trading day pursuant to the joint announcement
		Approx.%	Approx.%
Sinotrans Shipping Limited (368)	27 September 2018	50.00%	42.90%
Advanced Semiconductor Manufacturing Corporation Limited (3355)	30 October 2018	66.67%	99.29%
Hopewell Holdings Limited (54)	5 December 2018	46.70%	55.50%
China Power Clean Energy Development Company Limited (735)	28 March 2019	41.90%	78.10%

Company/Stock code used before privatization	Date of relevant joint announcement	Premium of the offer price/the cancellation price over closing price per share on last trading day pursuant to the joint announcement	Premium of the offer price/the cancellation price over average closing price per share for the 30 trading days up to and including the last trading day pursuant to the joint announcement
		<i>Approx.%</i>	<i>Approx.%</i>
China Hengshi Foundation Company Limited (1197)	4 April 2019	10.62%	17.37%
China Automation Group Limited (0569)	14 June 2019	23.97%	47.78%
C.P. Lotus Corporation (121)	18 June 2019	10.00%	29.40%
Asia Satellite Telecommunications Holdings Limited (1135)	27 June 2019	23.43%	44.44%
TPV Technology Limited (903)	12 August 2019	41.39%	54.50%
AVIC International Holdings Limited (161)	2 October 2019	29.12%	81.31%
Huaneng Renewables Corporation Limited (0958)	3 October 2019	18.73%	55.72%
Dah Chong Hong Holdings Limited (1828)	20 October 2019	37.55%	54.81%
Springland International Holdings Limited (1700)	1 November 2019	63.10%	56.80%
China Agri-Industries Holdings Limited (606)	27 November 2019	34.07%	53.17%
Joyce Boutique Group Limited (647)	12 December 2019	91.78%	82.17%
BBJ Life Sciences Corporation (1035)	20 January 2020	16.28%	42.45%
Kingsley Edugroup Limited (8105)	29 January 2020	12.5%	4.25%
Wheelock and Company Limited (20)	27 February 2020	52.2%	45.2%
		<i>(note 1)</i>	<i>(note 1)</i>
Li & Fung Limited (494)	20 March 2020	150.00%	95.20%
Statistics:	Min	10.00%	4.25%
	Max	150.00%	99.29%
	Mean	43.16%	54.76%
	Median	37.55%	54.50%
The Company		64.83%	100.00%

Notes:

1. The consideration under the proposal for privatisation comprised cash consideration and distribution of ordinary shares of other two listed companies in the Stock Exchange. The premium is calculated with reference to the aggregate value of cash consideration and closing prices of relevant consideration shares.
2. Based on the closing price of HK\$0.91 per H Share on 15 June 2020 prior to the trading halt of the H Shares pending from release of the Rule 3.5 Announcement.

As depicted above, the premium of the H Share Offer Price over the closing price on 15 June 2020 fall within the range of and is higher than the mean and median of the Privatisation Cases and the premium of the H Share Offer Price over the average closing price per share for the 30 trading days up and including the Last Trading Date is higher than all of the Privatisation Cases.

(ix) The Delisting

As set out in the Letter from ICBCI, the Offeror considers that the Delisting will facilitate business integration between the Offeror and the Company, giving the Offeror more flexibility to support the future business development of the Company without being subject to regulatory restrictions and compliance obligations associated with the related obligations arising from the listing status of the Company on the Stock Exchange. After the Delisting, the relevant listing costs and expenses will also be saved. As set out in the Letter from the Board, the Offeror does not intend the H Shares to remain listed on the Stock Exchange after the close of the H Share Offer.

The Delisting also forms part of the Conditions and the fulfilment of which the H Share Offer is subject to the passing of the resolutions by the Independent H Shareholders approving the Delisting at the H Share Class Meeting and the Extraordinary General Meeting respectively, provided that (i) approval is given by at least 75% of the votes attaching to the H Shares (or the Shares for the Extraordinary General Meeting) held by the Independent H Shareholders that are cast either in person or by proxy; and (ii) the number of votes cast (by way of poll) against the resolutions are not more than 10% of the votes attaching to all the H Shares (or all the Shares for the Extraordinary General Meeting) held by the Independent H Shareholders. The Offeror and the parties acting in concert with the Offeror will abstain from voting in respect of all such Shares in the Extraordinary General Meeting and the H Share Class Meeting in accordance with Rule 2.2 of the Takeovers Code.

As set out in the Letter from ICBCI, once all of the Conditions have been satisfied, the H Share Offer will be declared unconditional in all respects and the H Share Offer should remain open for acceptance for not less than 28 days in compliance with the note to Rule 2.2 and Rule 15.3 of the Takeovers Code before the H Share Offer is closed in order to allow sufficient time for those H Shareholders who have not initially accepted the H Share Offer to accept the H Share Offer or to process the transfer of their H Shares. Upon the H Share Offer becoming unconditional, the Company will make an application for the Delisting in accordance with Rule 6.12 of the Listing Rules.

Given (i) the abovementioned commercial rationale for and the Offeror's intention to the Delisting after the close of the H Share Offer; (ii) the H Share Offer Price is fair and reasonable (details of our assessment of which have been set out in the earlier context of this letter); and (iii) the Offeror will provide a longer period for offer acceptance, particularly to those Independent H Shareholders not initially accept the H Share Offer, we consider that the Delisting is fair and reasonable.

RECOMMENDATION

Having considered the principal factors set out above, in particular, the following:

- (i) the H Share Offer Price represents a premium of approximately 64.8% over the closing price of the H Shares as quoted on the Stock Exchange on 15 June 2020 prior to the trading halt of the H Shares pending from the release of the Rule 3.5 Announcement;
- (ii) the H Share Offer Price represents a premium of approximately 15.4% over the closing price of the H Shares as at the Latest Practicable Date;
- (iii) the H Share Offer Price have been above the closing prices of the H Shares throughout the Review Period;
- (iv) the trading liquidity of the H Shares is low and disposal of a large number of H Shares by Independent H Shareholders in the open market may have adverse impact on the price of H Shares;
- (v) the P/E Ratio of approximately 6.29 times implied by the H Share Offer Price is above median P/E Ratio of the Electronic Comparables and Property Comparables respectively and the P/B Ratio of approximately 0.64 time implied by the H Share Offer Price over the unaudited net asset value per Share based on the 2020 Interim Results Announcement and approximately 0.48 time implied by the H Share Offer Price over the Adjusted Unaudited NAV per Share are above median P/B Ratio of the Property Comparables;
- (vi) the premiums of the H Share Offer Price over the closing price as quoted on the Stock Exchange on 15 June 2020 of approximately 64.8% and the 30 consecutive trading days up to and including the Last Trading Date of approximately 100.0% respectively are significantly higher than those of the Privatisation Cases;
- (vii) the future prospects of the Group's business may remain uncertain in view of the impact by the trade conflict between the PRC and U.S. and spread of COVID-19 as detailed above; and
- (viii) the commercial rationale for and the Offeror's intention to the Delisting and the H Share Offer will remain open for acceptance for a longer period, particularly to those Independent H Shareholders not initially accept the H Share Offer,

we consider that the terms of the H Share Offer (including the H Share Offer Price) and the Delisting are fair and reasonable so far as the Independent H Shareholders are concerned. Accordingly, we recommend the Independent Board Committee to advise the Independent H Shareholders to (i) accept the H Share Offer; and (ii) vote in favour of the resolutions in respect of the Delisting at the H Share Class Meeting and the Extraordinary General Meeting respectively.

Those Independent H Shareholders may, having regard to their own circumstances, consider retaining all or any part of their H Shares (the “Retaining Shareholders”).


The Offeror has no rights under the laws of the PRC and the Articles of the Company to compulsorily acquire the H Shares that are not tendered for the acceptance pursuant to the H Share Offer.


In the event that the Retaining Shareholders do not accept the H Share Offer and given that the Delisting shall take effect following the end of the Offer Period, (i) this will result in the Retaining Shareholders holding unlisted H Shares and the liquidity of the H Shares may be severely reduced; (ii) the rights/interests of the Retaining Shareholders will no longer be protected by the Listing Rules; and (iii) the Company may not continue to be subject to the Takeovers Code after the completion of the H Share Offer depending on whether it remains as a public company in Hong Kong and the rights/interests of the Retaining Shareholders may no longer be protected by the Takeovers Code.

The Independent H Shareholders should also monitor the H Share price closely, if the Independent H Shareholders decide to accept the H Share Offer but the proceeds of selling in the market (net of costs) would be higher than the net proceeds receivable under the H Share Offer, they should sell in the market instead. They should also keep in mind that, if applicable, dealings in the H Shares will be suspended from the day following the Final Closing Date up to the withdrawal of listing of the H Shares (if approved) from the Stock Exchange.

As different Independent H Shareholders would have different investment criteria, objectives and/or circumstances, we would recommend any Independent H Shareholders who may require advice in relation to any aspect of the Composite Document, or as to the action to be taken, to consult a licensed securities dealer, bank manager, solicitor, professional accountant, tax adviser or other professional adviser. The Independent H Shareholders are also reminded to read carefully the procedures for accepting the H Share Offer as detailed in the Composite Document, the appendices to the Composite Document and the relevant form of acceptance and transfer, if they wish to accept the H Share Offer.

Yours faithfully,
For and on behalf of
Sorrento Capital Limited


Stanley Chung
Managing Director


Wesker Poon
Managing Director

Note: Mr. Stanley Chung has been a responsible officer of type 6 (advising on corporate finance) regulated activity under the SFO since 2006 and Mr. Wesker Poon is a responsible officer of type 6 (advising on corporate finance) regulated activity and has more than nine years of experience in corporate finance and investment banking. Mr. Chung and Mr. Poon have participated in and completed various advisory transactions in respect of the Takeovers Code.