

27 January 2023

To the Independent Board Committee

Dear Sirs,

**CONDITIONAL VOLUNTARY CASH PARTIAL OFFER
BY CLSA LIMITED
ON BEHALF OF THE JOINT OFFERORS TO ACQUIRE A MAXIMUM OF
80,000,000 OFFER SHARES OF XINGDA INTERNATIONAL HOLDINGS
LIMITED FROM QUALIFYING SHAREHOLDERS**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to the Company to advise the Independent Board Committee in respect of the Partial Offer. Details of the Partial Offer are set out in the Composite Document jointly issued by the Joint Offerors and the Company dated 27 January 2023, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Composite Document unless the context otherwise requires.

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Koo Fook Sun, Louis, Mr. William John Sharp and Ms. Xu Chunhua, has been established by the Company in accordance with Rule 2.1 of the Takeovers Code to make recommendation to the Qualifying Shareholders as to whether the terms of the Partial Offer are fair and reasonable, and as to approval and acceptance of the Partial Offer. We, Optima Capital Limited, have been appointed by the Company as the Independent Financial Adviser in accordance with Rule 2.4 of the Takeovers Code to advise the Independent Board Committee in respect of the Partial Offer. Our appointment has been approved by the Independent Board Committee.

We are not associated or connected with the Company or the Joint Offerors, their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them. We are therefore considered eligible to give independent advice in respect of the Partial Offer. Apart from 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 or the Joint Offerors, their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them.

In formulating our advice and recommendation, we have relied on the information and facts supplied, and the opinions expressed, by the Directors and management of the Company (the “**Management**”) and have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete in all material respects at the time they were provided and expressed, and continue to be true, accurate and complete in all material respects up to the Latest Practicable Date. We have reviewed, among other things, (i) the Joint Announcement; (ii) the Composite Document; (iii) the annual reports of the Company for the three years ended 31 December 2019 (the “**2019 Annual Report**”), 2020 (the “**2020 Annual Report**”) and 2021 (the “**2021 Annual Report**”); (iv) the interim report of the Company for the six months ended 30 June 2022 (the “**2022 Interim Report**”); and (v) other information obtained from the public domain. We have also sought and received confirmation from the Management that no material facts have been omitted from the information supplied and opinions expressed to us. We have relied on such information and consider that the information we have received is sufficient for us to reach an informed view and have no reason to believe that any material information have been withheld, nor doubt the truth or accuracy of the information provided. We have not, however, conducted any independent investigation into the business and affairs of the Group or the Joint Offerors or the associates of any of them, nor have we carried out any independent verification of the information supplied. Should there be any subsequent material changes in such information during the Offer Period, the Company will inform the Shareholders as soon as practicable in accordance with Rule 9.1 of the Takeovers Code. The Shareholders shall also be informed as soon as practicable when there are any material changes to the information contained or referred to in this letter and our opinion after the Latest Practicable Date and throughout the Offer Period.

In relation to the Partial Offer, we have not considered the tax implications on the Qualifying Shareholders of the acceptance or non-acceptance of the Partial Offer since these depend on their individual circumstances. In particular, the Qualifying Shareholders who are overseas residents or subject to overseas taxation or Hong Kong taxation on securities dealings should consider their own tax position and, if in any doubt, should consult their own professional advisers.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our advice with regard to the Partial Offer, we have taken into account the following principal factors and reasons:

1. Terms and conditions of the Partial Offer

Offer Price

The Partial Offer is made on the following basis:

For each Offer Share HK\$1.88 in cash

The Offer Price will not be increased, and the Joint Offerors do not reserve the right to do so. Shareholders and potential investors should be aware that, following the making of this statement, the Joint Offerors will not be allowed to increase the Offer Price.

The Offer Shares to be acquired by the Joint Offerors from the Qualifying Shareholders shall be fully paid, free from all liens, charges, encumbrances, rights of pre-emption and any other third party rights of any nature and together with all rights and benefits at any time accruing and attaching thereto, including all rights to any dividend or other distributions the record date of which falls on or after the Final Closing Date. The Company confirms that as at the Latest Practicable Date, it does not have any intention to make, declare or pay any further dividend or make other distributions from the Latest Practicable Date and up to and including the Final Closing Date.

Conditions to the Partial Offer

The Partial Offer is subject to the following Conditions:

- (i) valid acceptances being received (and not, where permitted, withdrawn) in respect of the Minimum Number of Offer Shares (i.e. 73,313,834 Offer Shares) and which would result in the Joint Offerors and parties acting in concert with them holding the interest in not less than 50.01% of the Shares in issue at or before 4:00 p.m. (Hong Kong time) on the First Closing Date, provided that the Joint Offerors shall purchase from the Qualifying Shareholders as many Offer Shares as are tendered by the Qualifying Shareholders up to the Maximum Number of Offer Shares (i.e. 80,000,000 Offer Shares); and
- (ii) approval of the Partial Offer pursuant to Rule 28.5 of the Takeovers Code by Qualifying Shareholders who are registered as Shareholders in the register of members of the Company as at the First Closing Date holding over 50% of the Shares not held by the Joint Offerors, the Joint Offerors' Shareholders and parties acting in concert with either of them, signified by means of a separate tick box on the Form of Approval and Acceptance specifying the number of Shares in respect of which the Partial Offer is approved.

Under Rule 28.5 of the Takeovers Code, a partial offer which could result in the offeror holding 30% or more of the voting rights in a company must normally be conditional on the approval by shareholders holding over 50% of the voting rights not held by the offeror and parties acting in concert with it by means of signifying their approval on a separate box on the form of approval and acceptance.

Mr. Liu Jinlan, Mr. Liu Xiang, Mr. Zhang Yuxiao and Mr. Hang Youming are the sole registered shareholder of Great Trade, In-Plus, Power Aim and Wise Creative respectively; hence, each of them is a party acting in concert with the Joint Offerors. Accordingly, none of Mr. Liu Jinlan, Mr. Liu Xiang, Mr. Zhang Yuxiao and Mr. Hang Youming are Qualifying Shareholders nor are they entitled to signify their approval of the Partial Offer under Rule 28.5 of the Takeovers Code.

Mr. Tao Jinxiang is a party to the Five Parties' Agreement; therefore, Mr. Tao Jinxiang and Perfect Sino, a company wholly-owned by Mr. Tao Jinxiang, are parties acting in concert with the Joint Offerors. The Tao Shares will be subject to the Partial Offer but Mr. Tao Jinxiang and Perfect Sino are not entitled to signify their approval of the Partial Offer under Rule 28.5 of the Takeovers Code.

As at the Latest Practicable Date, the Trustee held 2,139,665 Shares for satisfying the unvested share awards granted to the grantees under the Share Award Scheme. Pursuant to the Share Award Scheme, the Trustee shall not exercise the voting rights in respect of any Shares held under the trust constituted for the Share Award Scheme, therefore it is not entitled to signify its approval of the Partial Offer for the purposes of Rule 28.5 of the Takeovers Code. The Shares held by the Trustee will be subject to the Partial Offer but given the Trustee holds Shares for the purposes of the Share Award Scheme, the Company does not intend to give any instruction to the Trustee to accept the Partial Offer.

Whether or not the Qualifying Shareholders accept the Partial Offer, they (other than parties acting in concert with the Joint Offerors and the Trustee) may approve the Partial Offer AND specify the number of Offer Shares in respect of which they signify their approval of the Partial Offer in the Form of Approval and Acceptance. Each Offer Share shall be entitled to ONE vote only. Multiple votes in respect of the same Offer Share will not be taken into account when counting the approval of the Partial Offer. Qualifying Shareholders may specify the number of Offer Shares in respect of which they tender for acceptance of the Partial Offer.

In the event that valid acceptances are received:

- (i) for less than the Minimum Number of Offer Shares by the First Closing Date, unless the First Closing Date is extended in accordance with the Takeovers Code, the Partial Offer will not proceed and will lapse immediately; and
- (ii) for not less than the Minimum Number of Offer Shares and which would result in the Joint Offerors and parties acting in concert with them holding the interest in not less than 50.01% of the Shares in issue on or before the First Closing Date, the Joint Offerors will declare the Partial Offer unconditional as to acceptances on or before the First Closing Date.

Pursuant to Rule 15.1 of the Takeovers Code, the Partial Offer must initially be open for acceptance for at least 21 days following the Despatch Date.

Pursuant to Rule 15.3 of the Takeovers Code, where a conditional offer becomes or is declared unconditional (whether as to acceptances or in all respects), it should remain open for acceptance for not less than 14 days thereafter. Pursuant to Rule 28.4 of the Takeovers Code, if the Partial Offer has been declared unconditional as to acceptances on the First Closing Date, the Joint Offerors cannot extend the Final Closing Date to a day beyond the 14th day after the First Closing Date.

Accordingly, if the Partial Offer is declared unconditional in all respects on or before Friday, 10 February 2023, then the Final Closing Date would be on (but no earlier or later than) the First Closing Date. If the Partial Offer is declared unconditional in all respects later than Friday, 10 February 2023, then the Final Closing Date would be 14 days after the date of such declaration.

Pursuant to Rule 28.4 of the Takeovers Code, if the Partial Offer has been approved for the purposes of Rule 28.5 of the Takeovers Code by Qualifying Shareholders who are registered as Shareholders in the register of members of the Company as at the First Closing Date holding over 50% of the Shares not held by the Joint Offerors, the Joint Offerors' Shareholders and parties acting in concert with

either of them, and has been declared unconditional as to acceptances on the First Closing Date, the Joint Offerors cannot extend the Final Closing Date to a day beyond the 14th day after the First Closing Date.

Pursuant to Rule 28.6 of the Takeovers Code, since the Joint Offerors and parties acting in concert with them will be holding more than 50% of the voting rights of the Company if the Partial Offer becomes unconditional in all respects and full valid acceptances of the Partial Offer are received, the Joint Offerors will then be free to acquire further voting rights in the Company without incurring any obligation to make a general offer subject to Rule 28.3 of the Takeovers Code (that is, the Joint Offerors and parties acting in concert with them (including any other person who is subsequently acting in concert with them) may not acquire voting rights in the Company during the 12-month period immediately following the end of the Offer Period, except with the consent of the Executive).

Further details on the terms and conditions of the Partial Offer, including the procedures for acceptance and settlement and acceptance period, are set out in the letter from CLSA Limited contained in the Composite Document, Appendix I to the Composite Document and the accompanying Form of Approval and Acceptance.

2. Principal businesses of the Group

The Company is an investment holding company incorporated in the Cayman Islands with limited liability and its Shares are listed on the Main Board of the Stock Exchange. The Group is principally engaged in the manufacture and trading of radial tire cords, bead wires and other wires. The Group is a manufacturer of radial tire cords in the PRC and its top customers are mainly global tire manufactures. The Group's production bases are located in Jiangsu and Shandong Province of the PRC and Thailand.

Major operating segments

Set out below is the sales volume of different products of the Group for each of the financial years ended 31 December 2019 ("FY2019"), 2020 ("FY2020") and 2021 ("FY2021") and the six months ended 30 June 2021 ("HY2021") and 2022 ("HY2022") extracted from the respective annual reports of the Company and the 2022 Interim Report:

	FY2019	FY2020	FY2021	HY2021	HY2022
	<i>Tonnes</i>	<i>Tonnes</i>	<i>Tonnes</i>	<i>Tonnes</i>	<i>Tonnes</i>
Radial tire cords	676,300	707,000	851,400	439,200	413,000
– For trucks	426,100	436,800	504,600	266,800	241,100
– For passenger cars	250,200	270,200	346,800	172,400	171,900
Bead wires	83,800	105,100	130,400	69,800	68,400
Hose wires and other wires	57,600	70,100	95,800	45,200	46,000
Total	<u>817,700</u>	<u>882,200</u>	<u>1,077,600</u>	<u>554,200</u>	<u>527,400</u>

Set out below is the revenue generated by different products of the Group for each of FY2019, FY2020, FY2021, HY2021 and HY2022 extracted from the respective annual reports and the 2022 Interim Report:

	FY2019	FY2020	FY2021	HY2021	HY2022
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Radial tire cords	6,681.3	6,626.9	9,019.5	4,473.5	4,700.9
– For trucks	4,283.0	4,192.9	5,494.6	2,817.5	2,752.2
– For passenger cars	2,398.3	2,434.0	3,524.9	1,656.0	1,948.7
Bead wires	488.5	569.9	869.7	448.3	468.8
Hose wires and other wires	411.8	483.1	756.1	353.4	369.9
Total	<u>7,581.6</u>	<u>7,679.9</u>	<u>10,645.3</u>	<u>5,275.2</u>	<u>5,539.6</u>

The Group's sales were principally generated from the PRC, which accounted for approximately 72.5% and 64.6% of the Group's revenue for FY2021 and HY2022 respectively. The remainder was generated from sales to Thailand, India, the United States of America, Brazil, Korea and a number of other countries. As at 30 June 2022, the Group had 432 types of radial tire cord products and 203 types of bead wire, hose wire and other wire products available to its customers.

3. Reasons for and benefits of the Partial Offer and intention of the Joint Offerors

As disclosed in the 2021 Annual Report, the audited revenue and net profit of the Group for FY2021 increased by approximately 38.6% and 75.0% respectively as compared to FY2020, while the basic earnings per Share and diluted earnings per Share in FY2021 increased by 82.1% and 81.9% respectively as compared to FY2020.

Given that the global economy has been gradually recovering from the COVID-19 pandemic and the Chinese Government has also strengthened organic economic development drivers to promote continuous economic growth with the help of investment policies and consumption policies alongside measures to expand domestic demand and allocate funds, the Joint Offerors expect that the global demand for automotive tire strengthening material will grow significantly in the coming few years, and in the mid and long run, the radial tire cord industry will continue to thrive. Therefore, the Joint Offerors seek to obtain further interest in the Company to consolidate their joint control in the Company.

When determining the Maximum Number of Offer Shares and the Minimum Number of Offer Shares, the Joint Offerors have taken into account the interests of the Company, the Qualifying Shareholders, the Five Parties and themselves. The Joint Offerors are of the view that the Partial Offer will benefit all the aforesaid parties.

Benefits to the Company, the Five Parties and the Joint Offerors

As at the Latest Practicable Date, the Joint Offerors and parties acting in concert with them collectively owned approximately 45.60% of the voting rights in the Company. Upon the Partial Offer becoming unconditional, the Joint Offerors and parties acting in concert with them will collectively own not less than 50.01% of voting rights in the Company, which allow them to exercise statutory control of the Company. At the same time, the public float of the Company will be maintained at or above the 25% level as required under the Listing Rules and it is the intention of the Joint Offerors to maintain the listing status of the Shares on the Stock Exchange upon completion of the Partial Offer.

Upon completion of the Partial Offer, the Company will have greater flexibility to manage its capital structure. As stated above, since the Joint Offerors and parties acting in concert with them only owned an aggregate of approximately 45.60% of the voting rights in the Company as at the Latest Practicable Date, the Company is therefore restricted from pursuing share repurchases opportunistically without potentially triggering a mandatory general offer obligation under Rule 26.1 of the Takeovers Code on the part of the Joint Offerors and parties acting in concert with them. Should the Partial Offer be completed, the Joint Offerors and parties acting in concert with them will collectively own more than 50% of the voting rights in the Company and thus they will no longer be subject to the “2% creeper rule” under Rule 26.1 of the Takeovers Code (save that pursuant to Rule 28.3 of the Takeovers Code, the Joint Offerors and parties acting in concert with them (including any other person who is subsequently acting in concert with them) may not acquire voting rights in the Company during the 12-month period immediately following the end of the Offer Period, except with the consent of the Executive). The Company can then manage its capital structure, including by way of making share repurchases, more flexibly (the “**Company’s Benefits**”). The Company has no intention to pursue share repurchases after the completion of the Partial Offer.

The increase in shareholding in the Company by the Joint Offerors and parties acting in concert with them can also demonstrate their commitment to the Group and their confidence towards the prospects of the Group. It may possibly improve the Group’s credit indicators which allow the Group to conduct future equity and debt financing at a lower cost.

Benefits to the Qualifying Shareholders

Upon the Partial Offer becoming unconditional, each Qualifying Shareholder (i) will receive a payment of HK\$1.88 in cash for every Offer Share in respect of which that Qualifying Shareholder validly accepts the Partial Offer and which is taken up by the Joint Offerors under the Partial Offer (less the seller’s ad valorem stamp duty arising therefrom); and (ii) will have the opportunity of retaining an interest in the Company going forward and therefore, will be able to enjoy any further potential upside from any retained ownership in the Company post the Partial Offer.

Intention of the Joint Offerors

The Joint Offerors intend to continue the existing businesses and the employment of employees of the Group and have no intention to introduce any major redeployment of fixed assets to the Group which is not in the ordinary course of business. The Joint Offerors consider that the Group should continue to review its strategy and focus to best suit the operating environment of the Group. The Joint

Offerors and the Board have not entered and do not intend to enter into any agreement, arrangements, understanding (i) to acquire and/or develop any new business nor (ii) to dispose of or downsize the existing businesses and/or material operating assets, of the Company. The Company has no intention to appoint new members to the Board after the completion of the Partial Offer.

In light of the Company's Benefits, we have enquired the Management if there is any plan for major corporate exercises including but not limited to share repurchase and proposed dividend and we understand from the Management that there is no such plan in contemplating as at the Latest Practicable Date. Although there is no such plan in contemplating as at the Latest Practicable Date, we concurred with the Management that the successful implementation and completion of the Partial Offer would enable the Company to secure the Company's Benefits, being the flexibility to manage its capital structure and alignment of the Company's interest and the Joint Offeror's interest in the Company.

Accordingly, we consider that the Partial Offer would offer an opportunity to those Qualifying Shareholders who wish to realise at least part of their investments in the Shares at a premium to the prevailing market price that would be difficult to achieve under the current market condition, without incurring any costs (other than stamp duty) which are customarily payable when disposing of shares in the open market, while retaining part of their equity interest in the Company to participate in the future development of the Group. For the analysis of the historical market prices of the Share, please refer to the section headed "10. Evaluation of the Offer Price – Comparison of the Offer Price against historical Share prices" below.

4. Historical financial results of the Group

Financial performance of the Group

Set out below is a summary of the financial performance of the Group for each of FY2019, FY2020, FY2021, HY2021 and HY2022 extracted from the respective annual reports of the Company and the 2022 Interim Report:

	FY2019	FY2020	FY2021	HY2021	HY2022
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
	(audited)	(audited)	(audited)	(unaudited)	(unaudited)
	(restated)				
Revenue	7,581.7	7,679.9	10,645.3	5,275.2	5,539.6
Cost of sales	(6,117.7)	(6,151.4)	(8,580.4)	(4,203.3)	(4,379.8)
Gross profit	1,464.0	1,528.5	2,064.9	1,071.9	1,159.8
Other income, net	126.4	159.2	189.8	94.9	88.7
Government grants	13.7	18.4	20.6	5.9	4.5
Distribution and selling expenses	(544.2)	(564.7)	(999.3)	(401.1)	(533.4)
Administrative expenses	(382.2)	(563.3)	(463.4)	(204.5)	(214.3)
Other gains and losses, net	31.2	(51.6)	83.7	(60.9)	23.8
Impairment losses	(25.3)	7.4	(7.5)	(6.2)	1.6
Research and development expenditure	(107.1)	(108.5)	(138.8)	(56.5)	(92.4)
Finance costs	(40.7)	(81.0)	(163.4)	(75.0)	(97.5)
Profit before tax	535.8	344.4	419.0	368.6	340.7
Income tax expense	(129.3)	(169.0)	(112.0)	(69.4)	(82.2)
Profit for the year attributable to					
– owners of the Company	285.8	115.0	218.9	214.0	164.8
– non-controlling interests	120.7	60.4	88.1	85.2	93.7
Profit for the year	406.5	175.4	307.0	299.2	258.5
Earnings per Share:					
Basic (<i>RMB cents</i>)	18.89	7.39	13.46	13.37	9.93
Diluted (<i>RMB cents</i>)	18.79	7.35	13.37	13.30	9.88

HY2022 versus HY2021

During HY2022, revenue and gross profit of the Group increased by approximately 5.0% and 8.2% respectively as compared to that in HY2021. Various control measures adopted by the Chinese Government for containing the COVID-19 pandemic caused certain impact on economic activities and disruption of logistics, which resulted in decrease in the overall production and demand for tires, and thereby the decline in production and sales of domestic radial tire cords, during HY2022. However, the increase in average selling prices, together with the boost in sales volumes in the overseas market, outweighed the effect of the drop in sales volume in the PRC market, leading to the increase in gross profit margin by approximately 0.6% to approximately 20.9% and resulted in increase in revenue and gross profit.

The Group also recorded net other gains in HY2022 as compared to a net other loss recorded in HY2021, which was mainly attributable to the net foreign exchange gain of approximately RMB29.2 million and reduced loss on written off and disposal of property, plant and equipment during HY2022. On the other hand, during HY2022, (i) the distribution and selling expenses increased by approximately 33.0% as a result of higher transportation costs due to higher export sales volume and inflated shipment fees; (ii) research and development expenses increased by approximately 63.5% as

a result of more research and development projects for new products and optimisation of production process undergone by the Group; and (iii) finance costs increased by approximately 30.0% due to the rise of average balance of bank borrowings.

As a result of the combined effect of the above, profit for the year attributable to owners of the Company decreased by approximately RMB49.2 million or 23.0% to approximately RMB164.8 million for HY2022 as compared to that for HY2021.

FY2021 versus FY2020

During FY2021, as the Chinese economy continued to recover, the demand for radial tire cords in the domestic market was robust. Demand from overseas markets also increased steadily mainly due to the resumption of normal production levels of overseas tire manufacturers and the need to restock radial tires subsequent to temporary shutdown of production facilities in FY2020. To cope with the strong demand for radial tire cords, the Group had enhanced its production capacity by upgrading technologies and increasing production lines during FY2021. As a result, total sales volume increased by approximately 22.1% in FY2021 as compared to that of FY2020, coupled with the increase in average selling prices, the revenue and gross profit of the Group increased by approximately 38.6% and 35.1% respectively in FY2021 as compared to that in FY2020. However, the gross profit margin dropped slightly by about 0.5% to approximately 19.4% due to the uptrend of raw materials prices in FY2021 with a time lag in passing through extra costs to customers.

The Group also recorded increase in other income of approximately RMB30.6 million due to the increase in sales of scrap materials and increase in bank interest income and net increase in other gains of approximately RMB32.1 million due to an increase in net foreign exchange loss and an increase in loss on change in fair value of financial assets at fair value through profit or loss. Administrative expenses also decreased by approximately 17.7% mainly due to the one-off share-based payment made by Jiangsu Xingda Steel Tyre Cord Co. Ltd. (“**Jiangsu Xingda**”) of approximately RMB141.1 million to reward its management in FY2020 while there was no such expense in FY2021. On the other hand, distribution and selling expenses increased by approximately RMB434.6 million due to the higher transportation and storage costs as a result of higher export sales volume and inflated shipment fees. Research and development expenses increased by approximately RMB30.3 million due to the Group’s ongoing effort to allocate more resources to boost production technique advancement, to enhance product diversity and to reduce emissions. Finance costs also increased by approximately RMB62.4 million due to the rise of average balance of bank borrowings.

As a result of the combined effect of the above, profit for the year attributable to owners of the Company increased by approximately RMB131.6 million or 75.0% to approximately RMB218.8 million for FY2021 as compared to that for FY2020.

FY2020 versus FY2019

During FY2020, as a result of the prompt and effective measures against the COVID-19 pandemic and favourable policies such as inner circulation strategy implemented by the Chinese Government, the Chinese economy started to rebound in the second quarter of 2020, resulting in significant growth of domestic market demand for radial tire cords in the second half of FY2020. As such, the Group

recorded increase in total sales volume of approximately 7.9% in FY2020 as compared to that of FY2019. On the other hand, production levels of certain overseas tire manufacturers dropped which led to the decrease in the sales of the Group's radial tire cords to overseas markets by about 11.4%. As the sales in domestic and overseas markets accounted for approximately 78.2% and 21.8% of the total sales volume respectively, overall the sales volumes of the Group in FY2020 increased, leading to slight increase in revenue and gross profit of approximately 1.3% and 4.4% respectively. Gross profit margin improved by about 0.6% to 19.9% as a result of lower raw material prices for production.

The Group also recorded increase in other income of approximately RMB32.8 million due to the increase of bank interest income and decrease in impairment loss recognised under expected credit loss model, net of reversal, by approximately RMB32.7 million which was mainly attributable to a drop in an accumulated impairment loss recognised on trade receivables under impairment assessment by reference to the expected credit loss model in FY2020. However, during FY2021, distribution and selling expenses increased by approximately RMB20.5 million due to the share-based payment of Jiangsu Xingda amounted to approximately RMB54.5 million which was the cost of rewarding the sales team of Jiangsu Xingda incurred in FY2020. Administrative expenses also increased by approximately RMB181.1 million mainly due to (i) the one-off share-based payment of approximately RMB141.1 million made by Jiangsu Xingda to reward its management in FY2020; and (ii) additional administrative related salaries and higher administrative costs upon the commencement of production of the Thailand plant in FY2020. Besides, other gains and losses decreased by approximately RMB82.9 million in FY2020 as compared to FY2019 due to the net foreign exchange loss of approximately RMB41.3 million recorded in FY2020 and decrease in fair value of financial assets at fair value through profit and loss. Finance costs also increased by approximately RMB29.8 million due to the rise of average balance of bank borrowings.

As a result of the combined effect of the above, profit for the year attributable to owners of the Company decreased by approximately RMB231.1 million or 56.9% to approximately RMB175.4 million for FY2020 as compared to that for FY2019. If the share-based payment of Jiangsu Xingda was excluded, the adjusted net profit of the Group for FY2020 would be approximately RMB446.3 million, representing an increase of approximately RMB39.8 million or about 9.8% when compared with FY2019.

Financial position of the Group

Set out below is a summary of the financial position of the Group as at 31 December 2021 and 30 June 2022 extracted from the 2022 Interim Report of the Company:

	31 December 2021 <i>RMB'000</i> (Audited)	30 June 2022 <i>RMB'000</i> (Unaudited)
Non-current assets		
Property, plant and equipment	5,729,026	6,293,646
Right-of-use assets	627,204	642,844
Freehold land	64,105	63,914
Investment properties	121,740	121,740
Term deposits	803,228	1,311,052
Deferred tax assets	114,480	122,719
Prepayments	20,963	19,463
	<u>7,480,746</u>	<u>8,575,378</u>
Current assets		
Inventories	1,355,395	1,706,938
Financial assets at fair value through profit or loss	149,516	132,490
Trade, bills and other receivables	8,173,246	8,336,296
Term deposits	1,930,941	1,294,763
Bank balances and cash	712,365	1,178,296
	<u>12,321,463</u>	<u>12,648,783</u>
Current liabilities		
Trade, bills and other payables	5,777,411	6,385,998
Contract liabilities	44,847	57,334
Amount due to a related company	–	4,627
Tax liabilities	30,015	36,115
Dividend payable	263,377	532,208
Borrowings – due within one year	4,789,478	4,370,705
Lease liabilities	595	200
Obligations arising from repurchase of shares	248,962	249,857
	<u>11,154,685</u>	<u>11,637,044</u>
Non-current liabilities		
Deferred tax liabilities	49,274	52,640
Borrowings – due after one year	760,000	1,685,000
Deferred income	226,713	258,693
Lease liabilities	899	810
	<u>1,036,886</u>	<u>1,997,143</u>
Total equity		
Share capital	163,218	163,218
Share premium and other reserves	5,536,632	5,499,434
Equity attributable to owners of the company	5,699,850	5,662,652
Non-controlling interests	1,910,788	1,927,322
	<u>7,610,638</u>	<u>7,589,974</u>

Assets

Non-current assets increased by approximately RMB1,094.6 million as at 30 June 2022 as compared with that of 31 December 2021, which was mainly attributable to the increase in property, plant and equipment of approximately RMB564.6 million and increase in long-term term deposits of approximately RMB507.8 million. Current assets increased by approximately RMB327.3 million as at 30 June 2022 as compared with that of 31 December 2021, which was mainly attributable to the increase in inventories of approximately RMB351.5 million and increase in bank balances and cash of approximately RMB465.9 million. Short-term term deposits decreased by approximately RMB636.2 million as some of the term deposits were matured. As a result, total assets increased by approximately RMB1,421.9 million as at 30 June 2022 as compared with that of 31 December 2021.

Liabilities

Current liabilities increased by approximately RMB482.4 million as at 30 June 2022 as compared with that of 31 December 2021. Such increase was mainly due to increase in trade, bills and other payables of approximately RMB608.6 million and increase in dividend payable of approximately RMB268.8 million, and the effect of which was partially offset by the decrease in short-term borrowings of approximately RMB418.8 million. Non-current liabilities increased by approximately RMB960.3 million as at 30 June 2022 as compared with that of 31 December 2021 which was mainly due to increase in long-term borrowings of approximately RMB925.0 million. The gearing ratio (defined as total debts to total assets) as at 30 June 2022 was approximately 28.5% (31 December 2021: 28.0%). As a result, total liabilities increased by approximately RMB1,442.7 million as at 30 June 2022 as compared with that of 31 December 2021.

Equity

As a result of the above, equity attributable to owners of the Company dropped by approximately RMB37.2 million as at 30 June 2022 as compared with that of 31 December 2021 which was mainly attributable the combined effect of the total comprehensive income for the period attributable to owners of the Company of approximately RMB163.2 million and final dividend of approximately RMB203.9 million for FY2021(the “**FY2021 Final Dividend**”). Based on 1,662,445,199 Shares in issue as at 30 June 2022, the equity attributable to owners of the Company (“**NAV**”) per Share as at 30 June 2022 was approximately RMB3.4.

5. Historical dividend payout

The Company has a consistent track record of paying dividends over the years. The following table summarises the dividend payout of the Company for the financial years ended 31 December 2017 (“**FY2017**”) and 2018 (“**FY2018**”) and FY2019, FY2020 and FY2021:

	FY2017	FY2018	FY2019	FY2020	FY2021
Dividend per Share (HK\$)	0.1500	0.1500	0.1500	0.1500	0.1500
	(approximately RMB0.1254)	(approximately RMB0.1314)	(approximately RMB0.1344)	(approximately RMB0.1262)	(approximately RMB0.1226)
	(Notes 3 and 4)	(Notes 3 and 4)	(Notes 3 and 4)	(Notes 3 and 4)	(Note 3)
Earnings per share – basic (RMB cents)	19.4	17.8	18.89	7.39	13.46
Dividend payout ratio (Note 1)	64.6%	73.8%	71.1%	170.8%	91.1%
Year-end closing price of the Shares (HK\$)	2.77	2.38	2.17	2.26	1.71
Dividend yield (Note 2)	5.4%	6.3%	6.9%	6.6%	8.8%

Notes:

1. Dividend payout ratio is calculated by dividing dividend per Share by earnings per Share for the relevant year.
2. Dividend yield is calculated by dividing the dividend per Share by the year-end closing price of the Shares for the relevant year.
3. For illustrative purpose, the dividend per Share (HK\$) is calculated based on the exchange rate of the central parity rate published by the People's Bank of China on its website as at the year-end date each year:

29 December 2017: HK\$1 = RMB0.83591

28 December 2018: HK\$1 = RMB0.87620

31 December 2019: HK\$1 = RMB0.89578

31 December 2020: HK\$1 = RMB0.84164

31 December 2021: HK\$1 = RMB0.81760

4. Under the Company's scrip dividend scheme, Shareholders may elect to receive:
 - (a) a cash dividend of 15.0 HK cents for each Share held on the record date; or
 - (b) a scrip dividend of scrip shares at an issue price, subject to any fractional entitlement being disregarded; or
 - (c) a combination of partly in (a) and partly in (b) above.

For illustrative purpose, the cash dividend is used to calculate the dividend payout ratio and the dividend yield.

As shown above, the Company's dividend payout ratio was about 64.6%, 73.8%, 71.1%, 170.8% and 91.1% for FY2017, FY2018, FY2019, FY2020 and FY2021 respectively. The Offer Price of HK\$1.88 per Share translates to an average dividend yield of approximately 7.4% based on the dividend of HK\$0.15 per Share for FY2019, FY2020 and FY2021. We note that the Company has been consistently paying final dividends of HK\$0.15 per Share over the past five years. We understand from the Management that there is no fixed dividend policy and the declaration and payout of the final dividend would depend on the Company's financial results and financial position of the respective year.

Solely from the perspective of Shareholders' return in terms of dividends, Qualifying Shareholders may consider to retain their Shares in full or in part so as to continue to be entitled to any future dividends to be distributed by the Company. However, Qualifying Shareholders are strongly recommended to read the entire letter, in particular, the section headed "Conclusion and recommendation" below, before coming to a decision on whether to accept the Partial Offer.

6. Prospects of the business of the Group

As disclosed in the 2021 Annual Report and the 2022 Interim Report, every country around the world is actively dealing with the evolving pandemic situation and gradually resuming normal economic activities. In China, the pandemic situation began to ease and the economy was revived, along with automobile production and sales rebounding and achieving year-on-year growth, all of which are likely to boost the demand for radial tire cords. In June 2022, the State Council of the PRC launched a series of policies to promote automobile consumption and, as such, automobile and related consumption for the year is expected to increase by approximately RMB200 billion. The Company expects that the ecology of the automobile industry will continue to improve, and the auxiliary and replacement markets are looking up, all of which are factors conducive to the further recovery of the industry.

However, there are still many uncertainties amid the pandemic, in particular, the impact of recent outbreak of COVID in the PRC on the global economy is still unknown. In addition, tight global supply chains and high inflation rate may also have a negative impact on the pace of global economic rebound. Further, the Group may also be impacted by prevailing weak market sentiment which was mainly due to high market volatility as results of the deteriorating economic conditions across the globe and the uncertainty arising from the prolonged geopolitical tensions between Russia and Ukraine since late February 2022. It is uncertain as to the impacts of the challenging business environment as mentioned above may have on the future performance of the Group.

7. Information on the Joint Offerors

Great Trade is a company incorporated in the British Virgin Islands with limited liability on 2 January 2004. As at the Latest Practicable Date, Mr. Liu Jinlan, chairman of the Board and an executive Director, is the sole registered shareholder of Great Trade. Great Trade is principally engaged in investment holding.

In-Plus is a company incorporated in the British Virgin Islands with limited liability on 2 January 2004. As at the Latest Practicable Date, Mr. Liu Xiang, an executive Director and the son of Mr. Liu Jinlan, is the sole registered shareholder of In-Plus. In-Plus is principally engaged in investment holding.

Power Aim is a company incorporated in the British Virgin Islands with limited liability on 2 January 2004. As at the Latest Practicable Date, Mr. Zhang Yuxiao, an executive Director, is the sole registered shareholder of Power Aim. Power Aim is principally engaged in investment holding.

Wise Creative is a company incorporated in the British Virgin Islands with limited liability on 2 January 2004. As at the Latest Practicable Date, Mr. Hang Youming, the son-in-law of Mr. Liu Jinlan, is the sole registered shareholder of Wise Creative. Wise Creative is principally engaged in investment holding.

The interests and rights of Great Trade, In-Plus, Power Aim and Wise Creative, and the interests and rights in the Shares held by Mr. Liu Jinlan, Mr. Liu Xiang, Mr. Zhang Yuxiao and Mr. Hang Youming through Great Trade, In-Plus, Power Aim and Wise Creative are owned by Mr. Liu Jinlan, Mr. Liu Xiang, Mr. Zhang Yuxiao and Mr. Hang Youming respectively for the benefit of the ESC Members, save for the Shares acquired by any of Mr. Liu Jinlan, Mr. Liu Xiang, Mr. Zhang Yuxiao and Mr. Hang Youming in their own name or through Great Trade, In-Plus, Power Aim and Wise Creative respectively using the funds provided by themselves on or after 30 August 2005 (including the Offer Shares to be acquired by Great Trade, In-Plus, Power Aim and Wise Creative respectively under the Partial Offer), such acquired Shares (together with all rights and benefits accruing and attaching thereto) shall be for the respective benefit of Mr. Liu Jinlan, Mr. Liu Xiang, Mr. Zhang Yuxiao and Mr. Hang Youming only and not for the benefit of the other ESC Members. As at the Latest Practicable Date, among the 632,767,883 Shares held by the Five BVI Companies, (i) a total of 454,678,266 Shares (representing approximately 27.35% of the total issued share capital of the Company as at the Latest Practicable Date) were held for the benefit of the respective members of the Five Parties, being 225,270,933 Shares for Mr. Liu Jinlan, 82,254,840 Shares for Mr. Liu Xiang, 55,862,493 Shares for Mr. Tao Jinxiang, 42,725,000 Shares for Mr. Zhang Yuxiao, and 48,565,000 Shares for Mr. Hang Youming respectively; and (ii) the remaining 178,089,617 Shares (representing approximately 10.71% of the total issued share capital of the Company as at the Latest Practicable Date) were held for the benefit of the other ESC Members.

Widen Success is a company incorporated in the British Virgin Islands with limited liability on 7 July 2022. As at the Latest Practicable Date, Mr. Liu Tao, the son of Mr. Liu Jinlan, held the entire issued share capital of Widen Success. Widen Success is principally engaged in investment holding.

8. Changes in shareholding structure after the Partial Offer

Assuming that there will be no change to the issued share capital of the Company between the Latest Practicable Date and up to the Closing Date, the shareholding structure of the Company, as at the Latest Practicable Date and immediately upon completion of the Partial Offer, is set out below:

	Immediately upon completion of the Partial Offer					
	As at the Latest Practicable Date		Assuming the Minimum Number of Offer Shares is tendered for acceptance by the Qualifying Shareholders under the Partial Offer ⁽¹²⁾		Assuming the Maximum Number of Offer Shares is tendered for acceptance by the Qualifying Shareholders under the Partial Offer ⁽¹²⁾	
			No. of Shares	Approximate %	No. of Shares	Approximate %
Joint Offerors						
Great Trade	274,104,883	16.49%	322,418,717	19.39%	329,104,883	19.80%
In-Plus	151,114,000	9.09%	155,114,000	9.33%	155,114,000	9.33%
Power Aim	42,725,000	2.57%	52,725,000	3.17%	52,725,000	3.17%
Wise Creative	48,565,000	2.92%	54,065,000	3.25%	54,065,000	3.25%
Widen Success	-	-	5,500,000	0.33%	5,500,000	0.33%
<i>Sub-total of Joint Offerors</i>	<u>516,508,883</u>	<u>31.07%</u>	<u>589,822,717</u>	<u>35.48%</u>	<u>596,508,883</u>	<u>35.88%</u>
Parties acting in concert with the Joint Offerors						
Mr. Liu Jinlan ⁽¹⁾	49,039,275	2.95%	49,039,275	2.95%	49,039,275	2.95%
Mr. Liu Xiang ⁽²⁾	18,932,299	1.14%	18,932,299	1.14%	18,932,299	1.14%
Mr. Zhang Yuxiao ⁽³⁾	3,458,000	0.21%	3,458,000	0.21%	3,458,000	0.21%
Mr. Hang Youming ⁽⁴⁾	43,671,000	2.62%	43,671,000	2.62%	43,671,000	2.62%
Mr. Tao Jinxiang ⁽⁵⁾	10,264,000	0.62%	10,264,000	0.62%	10,264,000	0.62%
Perfect Sino ⁽⁵⁾	116,259,000	6.99%	116,259,000	6.99%	116,259,000	6.99%
<i>Sub-total of Joint Offerors and parties acting in concert with them</i>	<u>758,132,457</u>	<u>45.60%</u>	<u>831,446,291</u>	<u>50.01%</u>	<u>838,132,457</u>	<u>50.42%</u>
The INEDs						
Mr. Koo Fook Sun, Louis ⁽⁶⁾	510,824	0.031%	510,824	0.031%	510,824	0.031%
Mr. William John Sharp ⁽⁷⁾	384,000	0.023%	384,000	0.023%	384,000	0.023%
Ms. Xu Chunhua ⁽⁸⁾	50,000	0.003%	50,000	0.003%	50,000	0.003%
<i>Sub-total of the INEDs</i>	<u>944,824</u>	<u>0.057%</u>	<u>944,824</u>	<u>0.057%</u>	<u>944,824</u>	<u>0.057%</u>
The Trustee ⁽⁹⁾	2,139,665	0.13%	2,139,665	0.13%	2,139,665	0.13%
Public Shareholders						
FIL Limited ⁽¹⁰⁾	166,244,328	9.99%	166,244,328	9.99%	166,244,328	9.99%
Other Shareholders	734,983,925	44.21%	661,670,091	39.80%	654,983,925	39.40%
Total	<u>1,662,445,199</u>	<u>100.00%</u>	<u>1,662,445,199</u>	<u>100.00%</u>	<u>1,662,445,199</u>	<u>100.00%</u>

Notes:

- Mr. Liu Jinlan is a grantee under the Share Award Scheme. Upon fulfilment of the relevant vesting conditions and assuming all award Shares granted to him are vested in full, Mr. Liu Jinlan will become interested in a further 5,425,000 Shares.

2. Mr. Liu Xiang is a grantee under the Share Award Scheme. Upon fulfilment of the relevant vesting conditions and assuming all award Shares granted to him are vested in full, Mr. Liu Xiang will become interested in a further 2,675,000 Shares.
3. Mr. Zhang Yuxiao is a grantee under the Share Award Scheme. Upon fulfilment of the relevant vesting conditions and assuming all award Shares granted to him are vested in full, Mr. Zhang Yuxiao will become interested in a further 2,675,000 Shares.
4. Mr. Hang Youming is a grantee under the Share Award Scheme. Upon fulfilment of the relevant vesting conditions and assuming all award Shares granted to him are vested in full, Mr. Hang Youming will become interested in a further 2,675,000 Shares.
5. Mr. Tao Jinxiang is a party to the Five Parties' Agreement; therefore, Mr. Tao Jinxiang and Perfect Sino, a company wholly-owned by Mr. Tao Jinxiang, are parties acting in concert with the Joint Offerors. Mr. Tao Jinxiang and Perfect Sino are Qualifying Shareholders and the Tao Shares will be subject to the Partial Offer, but Mr. Tao Jinxiang and Perfect Sino are not entitled to signify their approval of the Partial Offer under Rule 28.5 of the Takeovers Code. Mr. Tao Jinxiang is a grantee under the Share Award Scheme. Upon fulfilment of the relevant vesting conditions and assuming all award Shares granted to him are vested in full, Mr. Tao Jinxiang will become interested in a further 2,675,000 Shares.
6. Mr. Koo Fook Sun, Louis is an INED as at the Latest Practicable Date. He is a Qualifying Shareholder and the Shares held by him will be subject to the Partial Offer. Mr. Koo Fook Sun, Louis is a grantee under the Share Award Scheme. Upon fulfilment of the relevant vesting conditions and assuming all award Shares granted to him are vested in full, Mr. Koo Fook Sun, Louis will become interested in a further 217,000 Shares.
7. Mr. William John Sharp is an INED as at the Latest Practicable Date. He is a Qualifying Shareholder and the Shares held by him will be subject to the Partial Offer. Mr. William John Sharp is a grantee under the Share Award Scheme. Upon fulfilment of the relevant vesting conditions and assuming all award Shares granted to him are vested in full, Mr. William John Sharp will become interested in a further 217,000 Shares.
8. Ms. Xu Chunhua is an INED as at the Latest Practicable Date. She is a Qualifying Shareholder and the Shares held by her will be subject to the Partial Offer.
9. As at the Latest Practicable Date, the Trustee held 2,139,665 Shares for the Share Award Scheme. Pursuant to the Share Award Scheme, the Trustee shall not exercise the voting rights in respect of any Shares held under the trust constituted for the Share Award Scheme, therefore it is not entitled to signify its approval of the Partial Offer for the purposes of Rule 28.5 of the Takeovers Code. The Shares held by the Trustee will be subject to the Partial Offer but given the Trustee held Shares for the purposes of the Share Award Scheme, the Company does not intend to give any instruction to the Trustee to accept the Partial Offer.
10. Based on the disclosure of interest filings dated 1 September 2021 made by Pandanus Associates Inc., Pandanus Associates Inc. held 100.00% of Pandanus Partners L.P., which in turn held 37.01% of the issued share capital of FIL Limited. For the purpose of Part XV of the SFO, Pandanus Associates Inc. and Pandanus Partners L.P. are deemed to be interested in the Shares held by FIL Limited.
11. CITIC Securities (Hong Kong) is the financial adviser to the Joint Offerors in respect of the Partial Offer. Accordingly, CITIC Securities (Hong Kong) and persons controlling, controlled by or under the same control as CITIC Securities (Hong Kong) (except exempt principal traders and exempt fund managers, in each case recognised by the Executive as such for the purpose of the Takeovers Code) are presumed to be acting in concert with the Joint Offerors in relation to the Company in accordance with Class (5) of the definition of "acting in concert" under the Takeovers Code. As at the Latest Practicable Date, members of the CITIC Securities (Hong Kong) group do not legally or beneficially own, control or have direction over any Shares (except in respect of Shares held by exempt principal traders or exempt fund managers, in each case recognised by the Executive as such for the purposes of the Takeovers Code and also excluding Shares held on behalf of

non-discretionary investment clients of the CITIC Securities (Hong Kong) group). Nor were there any borrowing or lending of, or dealing in, Shares (or options, rights over Shares, warrants or derivatives in respect of them) by any members of the CITIC Securities (Hong Kong) group during the Relevant Period (except in respect of Shares held by exempt principal traders or exempt fund managers, in each case recognised by the Executive for such purposes of the Takeovers Code and also excluding the Shares held on behalf of non-discretionary investment clients of the CITIC Securities (Hong Kong) group). Notwithstanding that connected exempt principal traders within the CITIC Securities (Hong Kong) group are not acting in concert with the Joint Offerors, Shares held by any such connected exempt principal traders must not be assented to the Partial Offer until the Partial Offer becomes or is declared unconditional as to acceptances in accordance with the requirements of Rule 35.3 of the Takeovers Code, and must not approve the Partial Offer in accordance with the requirements of Rule 35.4 of the Takeovers Code, unless (i) the relevant connected exempt principal trader holds the Shares as a simple custodian for and on behalf of non-discretionary clients, and (ii) there are contractual arrangements in place between the relevant connected exempt principal trader and its clients that strictly prohibit the relevant connected exempt principal trader from exercising any voting discretion over the relevant Shares, and all voting instructions shall originate from the client only, and if no instructions are given, then no approval of the Partial Offer shall be signified for the relevant Shares held by the relevant connected exempt principal trader. For this purpose, a written confirmation of the matters set out in points (i) and (ii) above and whether the relevant underlying clients are entitled to vote in the context of the Partial Offer will be submitted to the Executive prior to the acceptance and approval of the Partial Offer in respect of the relevant Shares held by the relevant connected exempt principal trader.

12. On the assumption that all Shares tendered for acceptance under the Partial Offer are from Other Shareholders (as listed in the table above).

As at the Latest Practicable Date, there were 1,662,445,199 Shares in issue with no outstanding options, warrants, derivatives or securities that carry a right to subscribe for or that are convertible or exchangeable into Shares or other types of equity interest, and 1,030,835,742 Shares are held by the Qualifying Shareholders.

As at the Latest Practicable Date, there were 21,816,000 outstanding award Shares awarded to the grantees under the Share Award Scheme which remain unvested, among which 5,425,000, 2,675,000, 2,675,000, 2,675,000, 2,675,000, 217,000 and 217,000 award Shares which remain unvested were granted to Mr. Liu Jinlan, Mr. Liu Xiang, Mr. Tao Jinxiang, Mr. Zhang Yuxiao, Mr. Hang Youming, Mr. William John Sharp and Mr. Koo Fook Sun, Louis, respectively. Pursuant to the Share Award Scheme, the Trustee shall purchase Shares in the market out of cash contributed by the Company and hold such Shares until such Shares are vested in the relevant grantees. As at the Latest Practicable Date, the Trustee held 2,139,665 Shares for satisfying the unvested share awards granted to the grantees.

The Company has no intention to grant any new awards under the Share Award Scheme, and has not instructed and will not instruct the Trustee to purchase any Shares from the market, from the Joint Announcement until after the end of the Offer Period.

Pursuant to Rule 28.3 of the Takeovers Code, the Joint Offerors and parties acting in concert with them (including any other person who is subsequently acting in concert with them) may not acquire voting rights in the Company during the 12-month period immediately following the end of the Offer Period, except with the consent of the Executive. In this regard, Mr. Liu Jinlan, Mr. Liu Xiang, Mr.

Tao Jinxiang, Mr. Zhang Yuxiao and Mr. Hang Youming (i.e. the Five Parties) have requested the Company not to, and the Company will not, vest any Award Shares in them until after the expiry of the 12-month period immediately following the end of the Offer Period.

Save as aforesaid, as at the Latest Practicable Date, the Company had no other shares, options, warrants, derivatives or other securities that are convertible or exchangeable into Shares or other types of equity interest.

As illustrated in table above, even if the Maximum Number of Offer Shares were acquired by the Joint Offerors, over 25% of the issued Shares will still be held by public Shareholders and accordingly the Company will comply with the public float requirement under Rule 8.08 of the Listing Rules after completion of the Partial Offer.

9. Valuation of the property interests and adjusted NAV

(a) *Property interests*

The financial positions of the Group as at 30 June 2022 is set out in the section headed “Principal factors and reasons considered – 4. Historical financial results of the Group” of this letter above. As discussed in the aforesaid section, NAV attributable to equity holders of the Company amounted to approximately RMB5,662.7 million as at 30 June 2022, and a major portion of the assets of the Group were properties interest owned by the Group.

Cushman & Wakefield, an independent property valuer, has prepared an independent valuation of the property interests of the Group as 30 November 2022 (the “**Valuation Date**”). Full details of the valuation are set out in Appendix IV to the Composite Document. The market values of the Group’s property interests are summarised as follows:

	Market value of the property interests in existing state attributable to the Group as at the Valuation Date RMB'000
Group I – Property interests held for investment in the PRC	203,000
Group II – Property interests held for owner-occupation in the PRC	2,388,436
Group III – Property interests held for owner occupation in Thailand	537,552
Total	<u>3,128,988</u>

We have reviewed the valuation as contained in Appendix IV to the Composite Document, and have discussed with Cushman & Wakefield on (i) bases and assumptions used; (ii) valuation methodology adopted; and (iii) due diligence work performed. We noted that Cushman & Wakefield has used various valuation methodologies for arriving at valuations of the property interests including (i) income capitalisation method, pursuant to which the value of an asset is arrived on the basis of capitalisation of rental incomes derived from the existing tenancies with due allowance for reversionary potential of each of the properties or by reference to comparable market transactions; and (ii) depreciated replacement cost method (DRC Method), pursuant to which the value of an asset is based on an estimate of the market value of the land in its existing use, plus the current cost of replacement of the improvements, less allowance for physical deterioration and all relevant forms of obsolescence and optimisation. We have discussed the overall approach to the property valuation and queried the selection of relevant valuation methodologies for the property interests. We concur with the valuation approaches Cushman & Wakefield has taken in valuing the different types of properties.

(b) Adjusted NAV

As part of our assessment of the Offer Price, we have compared the Offer Price with the NAV of the Group based on the consolidated NAV of the Group as at 30 June 2022, adjusted as follows (the “Adjusted NAV”):

	<i>RMB'000</i>
Consolidated NAV of the Group attributable to owners of the Company as at 30 June 2022	5,662,652
Adjustments:	
– Net revaluation surplus arising from the valuation of property interests attributable to the Group as at the Valuation Date (<i>Note 1</i>)	208,296
– Net tax as a result of the revaluation surplus on the property interest (<i>Note 2</i>)	(45,706)
Adjusted NAV	5,825,242
Adjusted NAV per Share (<i>Notes 3 & 4</i>)	RMB3.50
	(equivalent to approximately HK\$4.09)

Notes:

1. The net revaluation surplus represents the difference between the market value of the property interests attributable to the Group as valued by Cushman & Wakefield of approximately RMB3,129.0 million in aggregate as at the Valuation Date and their corresponding book values of approximately RMB2,920.7 million as at 30 November 2022.
2. As advised by the Management, this represents the applicable tax attributable to the revaluation surplus on the property interests of the Group.
3. Amount in HK\$ is calculated at an exchange rate of HK\$1: RMB0.85519 (being the exchange rate as quoted by the People's Bank of China as at 30 June 2022) for illustrative purpose.

4. Calculated based on 1,662,445,199 Shares in issue as at the Latest Practicable Date

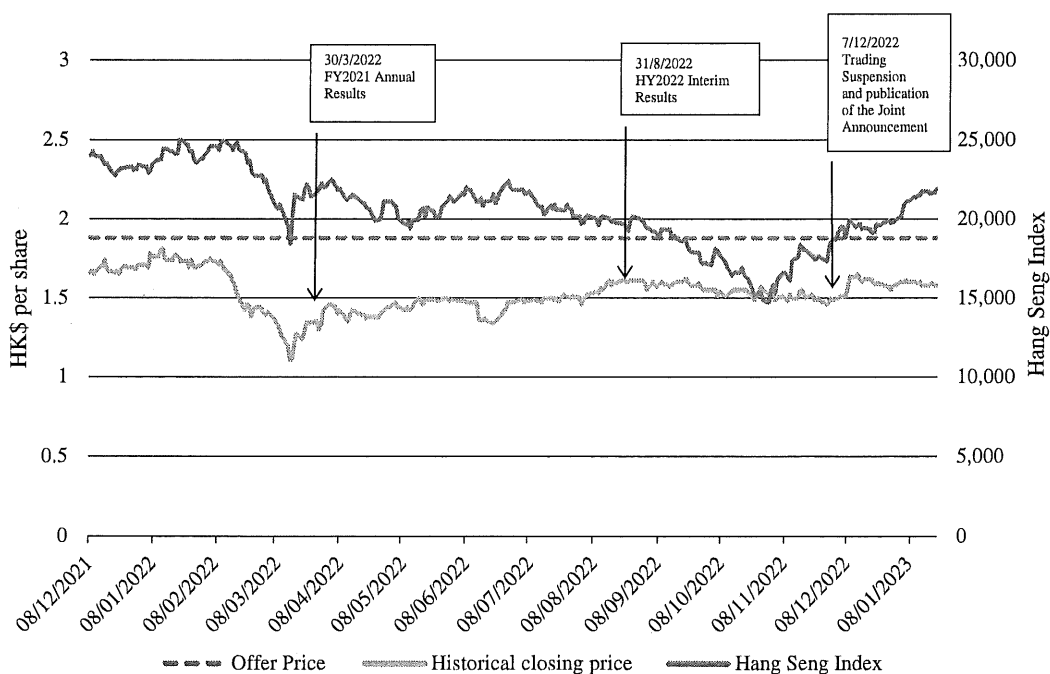
For the relevance of the NAV per Share and Adjusted NAV per Share to our assessment on the Offer Price, please refer to our analysis in the section headed “10. Evaluation of the Offer Price – Comparison of Offer Price against NAV per Share and Adjusted NAV per Share” below.

10. Evaluation of the Offer Price

Comparison of the Offer Price against historical Share prices

Historical price trend of the Shares

The chart below depicts the closing price of the Shares traded on the Stock Exchange from 8 December 2021, being the date falling one year preceding the date of the Joint Announcement, up to and including the Latest Practicable Date (the “**Review Period**”). We consider the Review Period is appropriate for our analysis of the historical Share price performance as it covers a sufficiently long period reflecting the financial results announced by the Company from time to time as well as smoothing out the distortions which may have been caused by short term volatility in the overall stock market.



Source: Bloomberg

As shown in the chart above, the closing price of the Shares remained relatively stable at about HK\$1.7 from 8 December 2021 to 10 February 2022. Since then, the closing price of the Shares gradually dropped and reached its bottom at HK\$1.1 on 15 March 2022 and 16 March 2022, which is

generally in line with the declining trend of the Hang Seng Index during the period. The closing price of the Shares gradually rebounded in late-March 2022 and April 2022 and remained relatively stable at approximately HK\$1.5 from May 2022 to 6 December 2022, being the Last Trading Day. No material fluctuations in the closing price of the Share were noted following the annual results announcement for FY2021 published by the Company on 30 March 2022 and the interim results announcement for HY2022 published by the Company on 31 August 2022, reflecting that the financial results of the Company may not have any material impact on its Share price.

Trading in the Shares was suspended on 7 December 2022 pending the publication of the Joint Announcement (the “**Trading Suspension**”). The closing price of the Shares was HK\$1.55 on 8 December 2022, being the first trading day immediately following publication of the Joint Announcement, representing only a slight increase of about 2.6% as compared to the closing price of HK\$1.51 on the Last Trading Day. Since then, the closing price of the Shares remained within the range of HK\$1.55 to HK\$1.65 and closed at HK\$1.59 as at the Latest Practicable Date.

In our opinion, the increase in the closing price of the Shares following the publication of the Joint Announcement was likely to be associated with the market response to the Partial Offer. There is no assurance that the closing price of the Shares will remain at the current level or continue to rise if the Partial Offer closes, lapses or does not become unconditional for any reason.

In summary, the Offer Price of HK\$1.88 per Offer Share represents:

- (i) a premium of approximately 24.50% over the closing price of HK\$1.51 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a premium of approximately 25.33% over the average of the closing prices of the Shares as quoted on the Stock Exchange for the last 5 consecutive trading days up to and including the Last Trading Day;
- (iii) a premium of approximately 26.09% over of the closing prices of the Shares as quoted on the Stock Exchange for the last 10 consecutive trading days up to and including the Last Trading Day;
- (iv) a premium of approximately 24.50% over the average of the closing prices of the Shares as quoted on the Stock Exchange for the last 30 consecutive trading days up to and including the Last Trading Day; and
- (v) a premium of approximately 18.24% over the average of the closing prices of the Shares as quoted on the Stock Exchange as at the Latest Practicable Date.

The Offer Price represents a premium of 24.50% over the closing Share price of HK\$1.51 on the Last Trading Day. During the Review Period, the closing price of the Shares ranged between HK\$1.11 and HK\$1.81 and the average closing price of the Shares was approximately HK\$1.53. As shown in the chart above, the closing price of the Shares was consistently below the Offer Price throughout the

whole Review Period. The Offer Price represents premia of approximately 69.4%, 3.9% and 22.9% over the lowest closing price, the highest closing price and the average closing price of the Shares during the Review Period respectively.

Qualifying Shareholders, especially those with significant stakes, should note that if they wish to realize their investments in the Company they might not be able to dispose of the Shares in the market without exerting a downward pressure on the market price of the Shares taking into account the thin liquidity of the Shares as analysed below. The Partial Offer, if it becomes unconditional, provides an opportunity for the Qualifying Shareholders to dispose of some or all of their holdings at a price higher than the closing Share prices during the Review Period. As the Partial Offer is made in respect of a maximum of approximately 4.81% of the total issued Shares, where valid acceptances are received for more than the Maximum Number of Offer Shares as at the Final Closing Date, it is possible that, if a Qualifying Shareholder tenders all his/her/its Shares for acceptance under the Partial Offer, not all of such Shares will be taken up and such Qualifying Shareholder may retain some or most of his/her/its shareholding.

Liquidity of the Shares

The following table sets out the trading volume of the Shares during the Review Period:

				Percentage of average daily trading volume to the total number of Shares held by public	
	Number of trading days in the relevant month/period	Total trading volume for the month/period (Note 1)	Average daily trading volume for the month/ period (Note 2)	Percentage of average daily trading volume to the total issued Shares as at the end of each month/ period (Note 3)	Shareholders as at the end of each month/ period (Note 4)
2021					
December	22	16,673,188	757,872	0.0456%	0.0838%
2022					
January	21	18,061,375	860,065	0.0517%	0.0951%
February	17	64,713,709	3,806,689	0.2290%	0.4209%
March	23	86,338,812	3,753,861	0.2258%	0.4151%
April	18	24,298,169	1,349,898	0.0812%	0.1493%
May	20	12,175,624	608,781	0.0366%	0.0673%
June	21	22,750,446	1,083,355	0.0652%	0.1198%
July	20	19,100,045	955,002	0.0574%	0.1056%
August	23	17,561,895	763,561	0.0459%	0.0844%
September	21	19,432,869	925,375	0.0557%	0.1023%
October	20	13,266,357	663,318	0.0399%	0.0734%
November	22	13,113,908	596,087	0.0359%	0.0659%
December	19	14,242,290	749,594	0.0451%	0.0829%
2023					
From 1 January to the Latest Practicable Date	14	6,709,053	479,218	0.0288%	0.0530%
Average				0.0746%	0.14%

Notes:

1. Total trading volume is expressed in terms of number of Shares traded.
2. 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 excluding any trading days on which trading of the Shares on the Stock Exchange was suspended for the whole trading day.
3. Based on 1,662,445,199 Shares in issue as at the end of each month/period or at the Latest Practicable Date.
4. The total number of Shares held by the public is calculated based on the number of total issued Shares excluding those held by the Joint Offerors and parties acting in concert with them as at the Latest Practicable Date.

As illustrated above, the average daily trading volume of the Shares ranged from 479,218 Shares to 3,806,689 Shares, representing approximately 0.0288% to 0.2290% of the total number of Shares in issue as at the end of the respective month/period, and approximately 0.0530% to 0.4209% of the total number of Shares held by public Shareholders as at the end of the respective month/period. We are of the view that the liquidity of the Shares during the Review Period had been thin.

Comparison of Offer Price against NAV per Share and Adjusted NAV per Share

The Offer Price represents:

- (i) a discount of approximately 43.1% to the audited consolidated NAV of approximately HK\$4.19 per Share as at 31 December 2021, calculated based on the audited consolidated NAV of RMB5,699.9 million as adjusted by the FY2021 Final Dividend (based on the exchange rate of HK\$1: RMB0.81760, the central parity rate published by the People's Bank of China on its website as at 31 December 2021 for illustrative purposes) as at 31 December 2021 and 1,622,445,199 Shares as at the Latest Practicable Date;
- (ii) a discount of approximately 52.80% to the unaudited consolidated NAV of approximately HK\$3.98 per Share as at 30 June 2022, calculated based on the unaudited consolidated NAV of RMB5,662.7 (based on the exchange rate of HK\$1: RMB0.85519, the central parity rate published by the People's Bank of China on its website as at 30 June 2022 for illustrative purposes) as at 30 June 2022 and 1,622,445,199 Shares in issue as at the Latest Practicable Date; and
- (iii) a discount of approximately 54.03% to the Adjusted NAV per Share as at 30 June 2022.

In assessing the Offer Price against the NAV per Share, we have also considered the historical trading price vis-à-vis NAV – we note that the Shares had been consistently traded at discounts to the NAV per Share for a prolonged period of time. In particular, the discounts to NAV per Share at which the Shares were traded during the periods indicated below show that the trading price of the Shares does not have correlation to the change in the NAV:

Year/period end	NAV per Share <i>(Notes 1 and 5)</i> <i>(RMB)</i>	Average closing Share price <i>(Note 2)</i> <i>(HK\$)</i>	Discount to NAV per Share <i>(Note 3)</i>
31 December 2019	3.68 (equivalent to approximately HK\$4.11)	1.69	58.9%
30 June 2020	3.63 (equivalent to approximately HK\$3.97)	2.05	48.3%
31 December 2020	3.52 (equivalent to approximately HK\$4.18)	1.91	54.2%
30 June 2021	3.50 (equivalent to approximately HK\$4.21)	1.66	60.6%
31 December 2021	3.43 (equivalent to approximately HK\$4.19)	1.47	64.8%
30 June 2022	3.41 (equivalent to approximately HK\$3.98)	1.54 <i>(Note 4)</i>	61.3%

Source: The website of the Stock Exchange; annual and interim reports of the Company

Notes:

1. Being the audited/unaudited consolidated NAV as at the respective year/period end date as extracted from the respective annual/interim results announcement published by the Company.
2. Representing the average closing Share price during the period from the trading day following the publication by the Company of its audited annual results or unaudited interim results (as the case may be) to the trading day on which the subsequent unaudited interim results or audited annual results (as the case may be) were published.
3. Representing the discount of the average closing Share price to the NAV per Share as at the respective year/period end date.
4. Representing the average closing Share price during the period from 1 September 2022, being the trading day following the publication by the Company of its unaudited 2020 interim results, to the Last Trading Day.

5. For illustrative purpose, using the exchange rate of the central parity rate published by the People's Bank of China on its website as at:

31 December 2019: HK\$1 = RMB0.89578
30 June 2020: HK\$1 = RMB0.91344
31 December 2020: HK\$1 = RMB0.84164
30 June 2021: HK\$1 = RMB0.83208
31 December 2021: HK\$1 = RMB0.81760
30 June 2022: HK\$1 = RMB0.85519

We noted that the Offer Price represented a discount of approximately 52.80% to the NAV per Share as at 30 June 2022 and approximately 54.03% to the Adjusted NAV per Share as at 30 June 2022. We also noted that the Joint Offerors intended to continue the existing businesses of the Group. Given that over 40% of the consolidated total assets as at 30 June 2022 were non-current assets which mainly consisted of property, plant and equipment and right-of-use assets for the Group's operation, and were not readily realisable into cash. Taking into account the above, we consider that the NAV per Share or the Adjusted NAV per Share does not fairly represent the value that the Company may actually distribute or return to the Shareholders while the Company will continue to operate on a going concern basis. In particular, the Shares had not been traded at a price level close to or above the NAV per Share for a prolonged period of time which implies that the market might not have valued the Shares solely with reference to the NAV per Share and Qualifying Shareholders may not be able to realise their investments in the Shares through an on-market transaction at a price equal or similar to the NAV per Share. Accordingly, in assessing the Offer Price, it would only be appropriate to consider the discount represented by the Offer Price to the NAV per Share or the Adjusted NAV per Share, in conjunction with other factors including but not limited to the financial performance and business prospects of the Group and more particularly, the comparison of the Offer Price to the historical and prevailing Share prices, which are more relevant from the perspective of Qualifying Shareholders in considering the return from their investments in the Shares.

Comparison against comparable companies

As mentioned in the sub-section headed "2. Principal businesses of the Group" above of this letter, the Group is principally engaged in manufacture and trading of radial tire cords, bead wires and other tires. Based on the closing Share price of HK\$1.51 and the number of issued Shares of 1,662,445,199 Shares on the Last Trading Day, the market capitalisation of the Company was approximately HK\$2,510.3 million. Accordingly, we have conducted a search on Bloomberg for companies primarily listed on the Main Board of the Stock Exchange which, based on their latest published annual reports available as at the date immediately before the Latest Practicable Date, are principally engaged in, among other things, manufacture and trading of radial tire cords or other tire cords. We have only identified one comparable company (the "**Comparable Company**"), namely Shougang Century Holdings Limited (stock code: 103.HK), which is exhaustive based on the above criteria.

For the selection of the valuation multiples, we have considered the price-to-earnings ratio ("**P/E Ratio**") and price-to-book ratio ("**P/B Ratio**") of the Comparable Company based on the financial information as disclosed in its latest published annual results announcement or annual report. We did

not consider using the price-to-sales ratio (“P/S Ratio”) as a benchmark because the P/S Ratio is mainly used to value non-profitable companies. As the Group and the Comparable Company are profitable, we considered the P/S Ratio to be an inappropriate metric for comparison purposes.

The table below sets out the comparison of historical P/E Ratios and P/B Ratios of the Company and the Comparable Company. We have also set out in the table below the implied P/E Ratios and implied P/B Ratios of the Partial Offer based on the Offer Price.

Company name (stock code)	Principal activities	Market capitalisation (HK\$'000) (Note 1)	P/E Ratio (approximate times) (Note 2)	P/B Ratio (approximate times) (Note 3)
Shougang Century Holdings Limited (stock code: 103)	The company together with its subsidiaries are principally engaged in the manufacturing of steel cords.	449,475	5.56	0.26
		Implied market capitalisation (HK\$'000) (Note 4)	Implied P/E Ratio (approximate times) (Note 5)	Implied P/B Ratio (approximate times) (Note 6)
The Company		3,125,397	11.68	0.47

Notes:

1. The market capitalisation is calculated as the closing price of the shares of the Comparable Company as at the Latest Practicable Date multiplied by its number of issued shares as at the Latest Practicable Date.
2. The P/E Ratio is calculated based on the market capitalisation as described in Note 1 above divided by the latest net profit attributable to the shareholders of the Comparable Company reported in its latest annual report.
3. The P/B Ratio is calculated based on the market capitalisation as described in Note 1 above divided by the net assets value attributable to the shareholders of the Comparable Company reported in its latest interim report.
4. The implied market capitalisation of the Company is calculated as the Offer Price multiplied by the number of issued Shares as at the Latest Practicable Date.
5. The implied P/E Ratio is calculated as the implied market capitalisation as described in Note 4 above divided by the profits attributable to the Shareholders as extracted from the 2021 Annual Report (based on the exchange rate of HK\$1: RMB0.81760, the central parity rate published by the People's Bank of China on its website as at 31 December 2021, for illustrative purposes).
6. The implied P/B Ratio is calculated as the implied market capitalisation as described in Note 4 above divided by the net assets value attributable to the Shareholders as at 30 June 2022 as extracted from the 2022 Interim Report (based on the exchange rate of HK\$1: RMB0.85519, the central parity rate published by the People's Bank of China on its website as at 30 December 2022, for illustrative purposes).

Shareholders are reminded that, as there is only one comparable company identified, the above analysis may not be meaningful due to the small sample size. Therefore, the above analysis should not be a factor in considering the fairness and reasonableness of the terms of the Partial Offer and is included for illustrative purposes only.

Comparison against partial offer precedents

We have compared the Partial Offer with other partial cash offer precedents in Hong Kong identified from the website of the Stock Exchange. We have identified all partial cash offer proposals announced since 1 January 2018 up to and including the Latest Practicable Date involving Hong Kong listed companies (the “**Precedents**”). Based on such criteria, we have identified six Precedents and the list of the Precedents as set out in the table below is exhaustive. We are of the view that the basis of the review period of approximately five years is fair and reasonable, as the Precedents have covered the most recent transactions which could reflect the market practice in relation to partial cash offers which are similar to the Partial Offer, and the sample size identified under such basis is sufficient to provide meaningful analysis. Shareholders should note that these Precedents involved companies in different industries and with different underlying reasons for their respective partial offers.

Announcement date	Stock code	Company name	Principal activities	Last trading day	Premium of offer price over the closing share price/ the average closing share price prior to the partial offer proposal			Premium/(Discount) of offer price over/(to) the consolidated NAV per Share prior to the partial offer announcement	Implied P/E Ratio (approximate times) (Note 1)
					5-day average	10-day average	30-day average		
12 December 2022	6669.HK	Acotec Scientific Holdings Limited	Primarily engaged in research and development of vascular interventional medical devices.	31.03	39.4%	58.3%	59.4%	356.9%	N/A (Note 2)
10 February 2021	0636.HK	Kerry Logistics Network Limited	Provision of logistics, freight and warehouse leasing and operations services	19.93	0.7%	7.8%	12.6%	39.1%	8.97
6 August 2020	0008.HK	PCCW Limited	Provision of telecommunications and related services	15.93	17.6%	18.1%	17.9%	207.7%	59.02
26 September 2019	0149.HK	China Agro-Products Exchange Limited	Primarily engaged in the business of management and sales of properties in agricultural produce exchange markets in the PRC.	44.42	42.2%	37.9%	65.5%	(25.4%)	N/A (Note 2)
20 December 2018	1200.HK	Mitland Holdings Limited	Provision of property agency services in Hong Kong, Macau and the PRC.	28.29	29.5%	27.1%	27.5%	(8.5%)	7.42
9 April 2018	2686.HK	AAG Energy Holdings Limited	Cracked methane exploration and development sector in the PRC.	15.19	26.4%	28.8%	31.0%	(1.4%)	25.63 (Note 3)
			Min	15.1%	0.7%	7.8%	12.6%	(35.4%)	7.42
			Max	44.4%	42.2%	37.9%	65.5%	207.7%	59.02
			Average	25.8%	26.0%	29.7%	42.3%	94.7%	25.26
		The Company		24.5%	25.3%	26.1%	24.5%	(52.8%)	11.68

Notes:

- The implied P/E Ratio is calculated based on the implied market capitalisation (calculated as the offer price for the shares of the company multiplied by its number of issued shares as at the announcement date) divided by the latest net profit attributable to the shareholders of the company as reported in its then latest annual report.

2. These companies recorded losses attributable to shareholders as reported in their then latest annual report.
3. The implied P/E Ratio is calculated according to Note 1 above. As the latest net profit attributable to shareholders of the company is reported in RMB in its latest annual report as at the announcement date, its HK\$ equivalent was calculated, for illustrative purposes, using the exchange rate of the central parity rate published by the People's Bank of China on its website as at 9 April 2018, i.e. HK\$1 = RMB0.80414.

The premiums of the Precedents represented by the Offer Price over the closing share price on the last trading day and the 5-day, 10-day and 30-day average closing share prices (up to and including the last trading day prior to such partial offer proposal) range from approximately 15.1% to 44.4%, 0.7% to 42.2%, 7.8% to 37.9% and 12.6% to 65.5% (collectively, the “**Premium Market Ranges**”), with averages of approximately 25.8%, 26.0%, 29.7% and 42.3% respectively. The premium of the Offer Price is approximately 24.5%, 25.3%, 26.1% and 24.5% over the closing price of Shares on the Last Trading Day, and its 5-day, 10-day and 30-day average closing prices (up to and including the Last Trading Day) respectively, which (i) fall within the Premium Market Ranges; and (ii) are close to the average premiums of the Precedents. The premium over the prevailing share prices as represented by the offer price is a factor common to all the Precedents and in our opinion is generally the key consideration for shareholders in such proposals.

The premiums and discount of the Precedents represented by the offer price to their respective NAV per Share ranged from a discount of approximately 25.4% to a premium of 207.7% while two (2) out of the six (6) Precedents are trading at discount to their respective NAV per Share. The Offer Price represents a discount to the NAV per Share as at 30 June 2022 of approximately 52.8% and a discount of approximately 54.03% to the Adjusted NAV as at 30 June 2022. We consider that the NAV per Share is a reference for the value of the Shares if the Company were put under liquidation in a non-distressed state and assuming willing buyers of assets at the stated value. It does not represent a cash value per Share. In addition, as discussed in the paragraph headed “Comparison of Offer Price against NAV per Share and Adjusted NAV per Share” under the sub-section headed “10. Evaluation of the Offer Price”, we noted that (i) the Shares had been consistently traded at discounts to the NAV per Share for at least the past three years, (ii) the Joint Offerors intended to continue the existing businesses of the Group; and (iii) over 40% of the consolidated total assets as at 30 June 2022 were non-current assets which mainly consisted of property, plant and equipment and right-of-use assets for the Group's operation, and were not readily realisable into cash. In light of this, we are of the view that it would not be appropriate to solely assess the fairness and reasonableness of the Offer Price based on comparison of the Offer Price with the NAV per Share as at 30 June 2022 and the Adjusted NAV per Share as at 30 June 2022. We are of the view more weight should be placed on the comparison of the Offer Price with the historical and prevailing Share prices in the assessment of the fairness and reasonableness of the Offer Price as we consider the trading price of the Shares determined under an open market is considered to be a fair price.

The implied P/E multiples of the Offer Price is 11.68 which falls within the range of the Precedents of 7.42 to 59.02. However, given (i) the implied P/E multiples of companies tend to vary from industry to industry; and (ii) the Precedents are engaged in various business activities which are substantially different from that of the Company, we consider it would not be meaningful to compare the Precedents with the Company with reference to the implied P/E multiples.

CONCLUSION AND RECOMMENDATION

Having considered the principal factors and reasons as discussed above, in particular,

- (i) the Offer Price exceeds the historical closing prices of the Shares throughout Review Period. It also represented significant premium over the prevailing market price of the Shares – 24.50% over the closing price of the Shares as at the Last Trading Day, and 25.33%, 26.09% and 24.50% over the average closing price of the Shares during the last 5, 10 and 30 trading days prior to and including the Last Trading Day;
- (ii) the Offer Price fall within the Premium Market Ranges and are close to the average premiums of the Precedents over the closing price of the Shares as at the Last Trading Day and for the last 5, 10 and 30 trading days prior to and including the Last Trading Day;
- (iii) the liquidity of the Shares is thin, with average trading volume representing less than 0.2290% and 0.4290% of the total issued share capital and public float of the Shares respectively during the Review Period. Such low liquidity renders it difficult for Qualifying Shareholders to dispose of their Shares in the market without exerting downward pressure on the Share price;
- (iv) despite the Offer Price represents a discount to the NAV per Share and Adjusted NAV per Share, it is noted that (i) the Shares had been consistently traded at discounts to the NAV per Share for at least past three years, (ii) the Joint Offerors intended to continue the existing businesses of the Group; and (iii) over 40% of the consolidated total assets as at 30 June 2022 were non-current assets which mainly consisted of property, plant and equipment and right-of-use assets for the Group's operation, and were not readily realisable into cash. We are of the view that it would not be appropriate to solely assess the fairness and reasonableness of the Offer Price based on comparison of the Offer Price to the NAV per Share as at 30 June 2022 and the Adjusted NAV per Share as at 30 June 2022;
- (v) despite the businesses of the Group had been profitable in the past and the Joint Offerors intend to continue the existing business, there are challenges and uncertainties lying ahead of the Group as discussed in the paragraph headed "6. Prospects of the business of the Group" under the section headed "Principal factors and reasons considered"; and
- (vi) the Company's consistent historical dividend payout in recent years may be attractive for Shareholders seeking returns in the form of dividends, however, there is no fixed dividend policy and the declaration and the payout of dividend would depend on the Company's financial results for and financial position as at the end of the relevant year,

on balance, we consider the Partial Offer is fair and reasonable so far as the Qualifying Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend the Qualifying Shareholders to approve and accept the Partial Offer. However, the Qualifying Shareholders who are attracted to the future of the Company and the historical dividend payout record may consider retaining some or all of their Offer Shares.



Qualifying Shareholders should note that acceptance of the Partial Offer may result in their holding odd lots of Shares. Accordingly, the Odd Lot Traders has been appointed as the designated agent to match sales and purchases of odd lot holdings of Shares in the market for a period of six weeks following the close of the Partial Offer to enable such Qualifying Shareholders to dispose of their odd lots or to top up their odd lots to whole board lots. Details of such arrangement are set out in the letter from CLSA Limited in the Composite Document.

Yours faithfully,
for and on behalf of
OPTIMA CAPITAL LIMITED

A handwritten signature in black ink, appearing to be "Ng Ka Po", written over a horizontal line.

Ng Ka Po
Managing Director
Corporate Finance

Mr. Ng is a responsible officer of Optima Capital Limited and a licensed person registered with the SFC to carry out Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO. Mr. Ng has participated in the provision of independent financial advisory services for various transactions involving companies listed on the Stock Exchange.