

25 October 2024

*To the Independent Board Committee of Xingda International Holdings Limited*

Dear Sir or Madam,

**VOLUNTARY CONDITIONAL CASH OFFER BY  
SHENWAN HONGYUAN CAPITAL (H.K.) LIMITED  
ON BEHALF OF GREAT TRADE LIMITED  
TO ACQUIRE ALL OF THE ISSUED SHARES OF  
XINGDA INTERNATIONAL HOLDINGS LIMITED  
(OTHER THAN THOSE ALREADY OWNED BY OR TO BE ACQUIRED BY  
GREAT TRADE LIMITED AND PARTIES ACTING IN CONCERT WITH IT)**

**INTRODUCTION**

We refer to our engagement as the Independent Financial Adviser to advise the Independent Board Committee in relation to the Offer. Our aforesaid appointment has been approved by the Independent Board Committee pursuant to Rule 2.1 of the Takeovers Code. Details of the Offer are set out in the letter from the Board (the “**Letter from the Board**”) contained in the Composite Document dated 25 October 2024 jointly issued by the Offeror and the Company to the Shareholders, of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Composite Document, unless otherwise specified.

Reference is made to the announcement jointly issued by the Offeror and the Company dated 24 September 2024 in relation to, among others, the Offer (the “**Joint Announcement**”).

Shenwan Hongyuan is making the Offer at the Offer Price of HK\$1.30 per Offer Share in cash on behalf of the Offeror in compliance with the Takeovers Code.

As at the Latest Practicable Date, the Offeror and the Offeror Concert Parties are interested in 710,956,146 Shares, representing approximately 37.03% of the total issued share capital of the Company.

## **THE INDEPENDENT BOARD COMMITTEE AND THE INDEPENDENT FINANCIAL ADVISER**

The Independent Board Committee (comprising all independent non-executive Directors, namely, Mr. Koo Fook Sun, Louis, Ms. Xu Chunhua and Ms. Zhang Guoyun, who have no direct or indirect interest in the Offer other than as minority shareholders of the Company), has been established by the Company in accordance with Rules 2.1 and 2.8 of the Takeovers Code to give recommendation to the Independent Shareholders as to whether the Offer is, or is not, fair and reasonable and as to acceptance of the Offer.

We, BaoQiao Partners Capital Limited, have been appointed as the Independent Financial Adviser by the Company with the approval of the Independent Board Committee to advise the Independent Board Committee in connection with the Offer, and in particular, as to whether the Offer is fair and reasonable and as to the acceptance of the Offer.

## **OUR INDEPENDENCE**

In the two years prior to the Latest Practicable Date, we have not acted in any capacity in relation to any transactions of the Company. As at the Latest Practicable Date, we do not have any relationship with, or have any interest in, the Company, the Offeror, their respective controlling shareholders, or any party acting, or presumed to be acting, in concert with any of them that could reasonably be regarded as relevant to our independence. Apart from the normal professional fees payable to us in connection with this appointment as the Independent Financial Adviser, no other arrangement exists whereby we had received or will receive any fees or benefits from the Company, the Offeror, their respective controlling shareholders, or any party acting, or presumed to be acting, in concert with any of them. As such, we consider that we are independent and can act as the Independent Financial Adviser under Rule 2.1 of the Takeovers Code and Rule 13.84 of the Listing Rules.

## **BASIS OF OUR OPINION**

In formulating our opinion and recommendation, we have relied on the statements, information, opinions and representations contained or referred to in the Composite Document and the information, opinions and representations provided to us by the management of the Company (the “**Management**”), the Company, the Offeror and their respective professional advisers. We have reviewed, among others, the 2023 Annual Report, the 2024 Interim Report and other information, representations and opinions as contained or referred to in the Composite Document and those provided by the Management, the Company, the Offeror and their respective professional advisers.

We have assumed that all information and representations that have been provided by the Management, the Company, the Offeror and their respective professional advisers for which they are solely and wholly responsible, were true, accurate and complete in all material respects and not misleading or deceptive at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and representations made by the Management, the Company, the Offeror and their respective professional advisers in the Composite Document and/or discussed with/provided to us were reasonably made after due enquiries and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth,

accuracy and completeness of the information and facts contained in the Composite Document, or the reasonableness of the opinions expressed by the Management, the Company, the Offeror and their respective professional advisers, which have been provided to us.

As disclosed in Appendix III to the Composite Document, all Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Composite Document (other than information relating to the Offeror and Offeror Concert Parties), and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in the Composite Document (other than the opinions expressed by the sole director of the Offeror in his capacity as director of the Offeror) have been arrived at after due and careful consideration and there are no other facts not contained in the Composite Document, the omission of which would make any statement in the Composite Document misleading.

As disclosed in Appendix IV to the Composite Document, the sole director of the Offeror accepts full responsibility for the accuracy of the information contained in the Composite Document (other than those relating to the Group) and confirms, having made all reasonable enquiries, that to the best of his knowledge, opinions expressed in the Composite Document (other than opinions expressed by the Directors in the capacity as Directors) have been arrived at after due and careful consideration and there are no other facts not contained in the Composite Document, the omission of which would make any statement in the Composite Document misleading.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs, financial condition and future prospects of the Group. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. The Company will notify the Independent Shareholders of any material change to information contained in or referred to in the Composite Document as soon as possible in accordance with Rule 9.1 of the Takeovers Code. The Independent Shareholders will also be informed as soon as possible when there is any material change to information contained in or referred to herein as well as any changes to our opinion, if any, after the Latest Practicable Date.

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

This letter is issued for the information of the Independent Board Committee solely in connection with their consideration of the matters relating to the Offer, and, except for its inclusion in the Composite Document, and for publication on the websites of the SFC ([www.sfc.hk](http://www.sfc.hk)), the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company ([www.irasia.com/listco/hk/xingda/index.htm](http://www.irasia.com/listco/hk/xingda/index.htm)) as required under the Takeovers Code and the Listing Rules, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

## PRINCIPAL FACTORS AND REASONS TAKEN INTO CONSIDERATION ON THE OFFER

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

### 1. Information on 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 manufacturing radial tire cords, bead wires and other wires (the “Products”) in the PRC and Thailand, and the sale of the Products in the PRC, India, Thailand, the United States of America, Slovakia, Brazil, South Korea, Indonesia and other countries.

### 2. Financial information of the Group

Set out below is a summary of the audited consolidated financial information of the Group for the financial years ended 31 December 2023 (“FY2023”) and 31 December 2022 (“FY2022”) as extracted from the 2023 Annual Report and the unaudited consolidated financial information of the Group for the six months ended 30 June 2024 (“HY2024”) and 30 June 2023 (“HY2023”) as extracted from the 2024 Interim Report:

	FY2023	FY2022	HY2024	HY2023
	<i>RMB in million</i>	<i>RMB in million</i>	<i>RMB in million</i>	<i>RMB in million</i>
	<i>(Audited)</i>	<i>(Audited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Revenue				
– Radial tire cords				
– For trucks	5,575	5,209	2,936	2,712
– For passenger cars	4,306	4,056	2,336	1,932
– Bead wires	861	834	457	409
– Hose wires and other wires	748	713	437	365
	<u>11,490</u>	<u>10,812</u>	<u>6,166</u>	<u>5,418</u>
Gross profit	2,201	2,274	1,209	1,027
Gross profit margin	19.2%	21.0%	19.6%	19.0%
Profit attributable to owners of the Company	449	348	192	192

	<b>As at 31 December 2023</b>	<b>As at 30 June 2024</b>
	<i>RMB in million (Audited)</i>	<i>RMB in million (Unaudited)</i>
<b>Total assets</b>	20,720	22,310
<b>Total liabilities</b>	12,421	13,773
<b>Net assets attributable to owners of the Company</b>	6,105	6,359

#### ***Financial performance of the Group***

The Group's revenue comprises sale of products including radial tire cords, bead wires, hose wires and other wires. For FY2022, FY2023 and HY2024, over 60% of the Group's revenue was generated in the PRC. The remainder was generated from sales to Thailand, India, the United States of America, Brazil, Korea and a number of other countries.

#### ***FY2022 vs FY2023***

The overall revenue of the Group was approximately RMB11,490 million for FY2023, representing an increase of approximately 6.3% as compared to approximately RMB10,812 million for FY2022. For FY2023 and FY2022, revenue from the sale of radial tire cords was approximately RMB9,881 million and RMB9,265 million respectively, which accounted for approximately 86.0% and approximately 85.7% of the Group's total revenue for the respective years, while revenue from the sale of bead wires was approximately RMB861 million and approximately RMB834 million respectively, which accounted for 7.5% and 7.7% of the Group's total revenue for the respective years and revenue from the sale of hose wires and other wires was approximately RMB748 million and approximately RMB713 million respectively, which accounted for 6.5% and 6.6% of the Group's total revenue for the respective years.

As disclosed in the 2023 Annual Report, the overall increase in the Group's revenue was mainly due to the recovery of the economy in China and the steady demand in the overseas markets. For FY2023, the Group recorded total sales volume of approximately 1.31 million tonnes, increased by approximately 23.8% year-on-year. The sales volumes of radial tire cords (for both trucks and passenger cars), bead wires and hose wires and other wires in FY2023 were approximately 1.04 million tonnes, 0.16 million tonnes and 0.11 million tonnes respectively, representing an increase of approximately 24.9%, 21.6% and 16.9% respectively as compared to those of FY2022.

For FY2023, the Group's gross profit decreased by approximately RMB73 million or approximately 3.2% to approximately RMB2,201 million, with gross profit margin at approximately 19.2%, representing a year-on-year decrease of approximately 1.8 percentage points. As disclosed in the 2023 Annual Report, the decline of both gross profit and gross profit margin was mainly due to the impairment loss on property, plant and equipment of approximately RMB92 million of the Group's subsidiary in Thailand being included in cost of sales in FY2023. As disclosed in the 2023 Annual Report, the impairment assessment on the carrying amounts of property, plant and equipment of the

Thailand subsidiary, being a cash-generating unit (CGU), was calculated based on value in use (VIU) calculation (which represents the present amount of the future cash flows that are expected to derive from the asset or CGU).

The Group reported an increase in profit attributable to owners of the Company from approximately RMB348 million for FY2022 to approximately RMB449 million for FY2023. The increase in profit for FY2023 was mainly due to the decrease in (i) distribution and selling expenses of approximately RMB265 million as a result of lower transportation costs following decreasing shipments fees on a year-on-year basis; and (ii) income tax expenses of approximately RMB88 million from approximately RMB186 million for FY2022 to approximately RMB98 million for FY2023 as the overall effective tax rate for the Group was lower in 2023, and such reduction in expenses for FY2023 outweighed the impact of lower gross profit of approximately RMB73 million as mentioned above; and the decrease in other income and net other gain of approximately RMB69 million and approximately RMB85 million respectively, due primarily to the decrease in bank interest income and net foreign exchange gain for FY2023 as compared to FY2022.

#### ***HY2023 vs HY2024***

The Group's total revenue increased by approximately 13.8% from approximately RMB5,418 million for HY2023 to approximately RMB6,166 million for HY2024. For HY2023 and HY2024, revenue from the sale of radial tire cords were approximately RMB4,644 million and approximately RMB5,272 million respectively, which accounted for approximately 85.7% and approximately 85.5% of the Group's total revenue for the respective periods. Revenue from the sale of bead wires were approximately RMB409 million and approximately RMB457 million respectively for HY2023 and HY2024, which accounted for 7.6% and 7.4% of the Group's total revenue for the respective periods. Revenue from the sale of hose wires and other wires were approximately RMB365 million and approximately RMB437 million for HY2023 and HY2024 respectively, which accounted for 6.7% and 7.1% of the Group's total revenue for the respective periods.

As disclosed in the 2024 Interim Report, the increase in revenue was mainly attributable to the increase in the demand for tire steel cord, with the sales volumes of radial tire cords (for both trucks and passenger cars), bead wires and hose wires and other wires increased in HY2024 by approximately 22.7%, 15.8% and 24.1% respectively as compared to HY2023.

For HY2024, the Group's gross profit increased by approximately 17.7% or approximately RMB182 million year-on-year to approximately RMB1,209 million and gross profit margin grew by approximately 0.6 percentage point to approximately 19.6% as compared with approximately 19.0% for HY2023. As disclosed in the 2024 Interim Report, such increase in HY2024 was mainly due to the absence of the impairment loss on property, plant and equipment of approximately RMB92 million being included in cost of sales in HY2023 and the increasing revenue for HY2024.

The profit attributable to the owners of the Company remained at approximately RMB192 million for both periods notwithstanding the increase in gross profits of approximately RMB182 million and other income of approximately RMB71 million for HY2024, due mainly to the increase in (i) distribution and selling expenses of approximately RMB137 million as a result of increasing

shipments fees for HY2024 as compared to HY2023; and (ii) the research and development expenditures of RMB63 million resulting from the increase in the number of new products under development in the first half of 2024.

### ***Financial position of the Group***

As at 30 June 2024, the Group's total assets increased to approximately RMB22,310 million from approximately RMB20,720 million as at 31 December 2023, due mainly to the increase in term deposits and cash and bank balances which were mainly derived from proceeds of approximately HK\$337 million received following completion of subscription of a total 257,680,000 new Shares by independent subscribers in February 2024. As at 30 June 2024, the Group's total assets comprised mainly property, plant and equipment of approximately RMB7,428 million, rights-of-use assets of approximately RMB613 million, trade, bills and other receivables of approximately RMB8,400 million, inventories of approximately RMB1,325 million as well as the total of term deposits and cash and bank balances of approximately RMB3,691 million.

As at 30 June 2024, the Group's total liabilities increased to approximately RMB13,773 million from approximately RMB12,421 million as at 31 December 2023, which mainly due to the increase in trade, bills and other payables and borrowings in the first half of 2024. As at 30 June 2024, the total liabilities of the Group mainly included borrowings of approximately RMB7,266 million and trade, bills and other payables of approximately RMB5,687 million.

Net assets attributable to owners of the Company increased by approximately RMB254 million from approximately RMB6,105 million as at 31 December 2023 to approximately RMB6,359 million as at 30 June 2024, due primarily to the profit attributable to owners of the Company of approximately RMB192 million for HY2024.

### **3. Historical dividend payout**

The Company has a consistent track record of paying final dividends over the years. The following table summarises the dividend payout of the Company for the financial years ended 31 December 2021 ("FY2021"), FY2022 and FY2023:

	<b>FY2023</b>	<b>FY2022</b>	<b>FY2021</b>
Dividend per Share ( <i>HK\$</i> )	0.13	0.15	0.15
Earnings per share – basic ( <i>RMB cents</i> )	27.07	20.99	13.46
Dividend payout ratio ( <i>Note 1</i> )	43.52%	63.84%	91.11%
Year-end closing price of the Shares ( <i>HK\$</i> )	1.45	1.57	1.71
Dividend yield ( <i>Note 2</i> )	8.97%	9.55%	8.77%

*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 payout ratio and dividend yield are calculated based on the exchange rate of the median exchange rate published by the People's Bank of China on its website as at the year-end date each year:

31 December 2021: HKD 1 = RMB0.81760

30 December 2022: HKD 1 = RMB0.89327

29 December 2023: HKD 1 = RMB0.90622

As shown above, the Company's dividend payout ratio was about 91.11%, 63.84% and 43.52% and dividend yield was 8.77%, 9.55% and 8.97% for FY2021, FY2022 and FY2023 respectively. The Offer Price of HK\$1.30 per Share translates to an average dividend yield of approximately 10.00% and 11.54% based on the dividend of HK\$0.13 per Share and HK\$0.15 per Share for the respective FY2023 and both FY2021 and FY2022.

In terms of the dividend return to Shareholders, Independent Shareholders who are attracted to the historical payout record of the Company, may consider to retain all or a portion of their Shares in order to maintain their entitlement to any future dividends that the Company may pay. However, 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 financial results and financial position of the Group of the respective year and the market conditions. As confirmed by the Directors, as at the Latest Practicable Date, the Company has not declared and does not intend to declare or pay any dividend or make other contributions, the record date of which falls (i) on or after the Latest Practicable Date and (ii) on or before the close or lapse of the Offer.

Independent Shareholders are strongly recommended to read the entire letter, in particular, the section headed "Recommendation" below, in considering whether to accept the Offer.

#### **4. Valuation of the property interests and adjusted NAV**

The financial positions of the Group as at 30 June 2024 is set out in the section headed "Principal Factors and Reasons Taken into Consideration on the Offer – 2. Financial Information of the Group" of this letter above. As discussed in the aforesaid section, net assets attributable to owners of the Company amounted to approximately RMB6,359 million as at 30 June 2024, and a major portion of the assets of the Group were properties interest owned by the Group.

Cushman & Wakefield Limited, an independent property valuer (the "Valuer"), has prepared an independent valuation (the "Valuation") of the property interests of the Group as 31 July 2024 (the "Valuation Date"). Full details of the Valuation are set out in Appendix V – Property Valuation Report 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*

Property interests held for investment in the PRC	189,000
Property interests held for owner occupation in the PRC	2,533,682
Property interests held for owner occupation in the Thailand	588,434
<b>Total</b>	<b>3,311,116</b>

We have reviewed and enquired the qualification and experience of the Valuer. We have (i) reviewed the terms of engagement of the Valuer with the Company (including their scope of work); (ii) conducted a phone interview to understand the qualification of the Valuer including its previous experience in conducting property valuation, as well as the valuation methodologies adopted for the Valuation; and (iii) enquired whether the Valuer is independent to the Company, the Offeror and the Offer Concert Parties. From the mandate letter and other relevant information provided by the Valuer and based on our interview with the Valuer, we are satisfied with the terms of engagement of the Valuer as well as their qualification for preparation of the Valuation. The Valuer also confirmed that they are independent to the Company, the Offeror and the Offeror Concert Parties.

In addition, we have reviewed the Property Valuation Report as contained in Appendix V to the Composite Document, and have discussed with the Valuer on (i) the bases and assumptions used; (ii) valuation methodology adopted; and (iii) due diligence work performed on the Valuation. We noted that the Valuer has used two 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 Valuer and enquired the selection of relevant valuation methodologies for the property interests. We are satisfied with the methodology and the principal basis and assumptions the Valuer has taken in valuing the different types of properties.

***Adjusted NAV***

As part of our assessment of the Offer Price, we have compared the Offer Price with the net assets value (“NAV”) of the Group based on the consolidated NAV of the Group as at 30 June 2024, adjusted as follows (the “Adjusted NAV”):

RMB 'million

Consolidated NAV of the Group attributable to owners of the Company as at 30 June 2024	6,359
<i>Adjustments:</i>	
– Net revaluation surplus arising from the valuation of property interests attributable to the Group as at the Valuation Date ( <i>Note 1</i> )	409
Adjusted NAV	6,768
Adjusted NAV per Share ( <i>HK\$</i> ) ( <i>Note 2, 3</i> )	3.862

*Notes:*

1. The net revaluation surplus represents the difference between the market value of the property interests attributable to the Group as valued by the Valuer of approximately RMB3,311 million in aggregate as at the Valuation Date and their corresponding book values of approximately RMB2,902 million as at 30 June 2024.
2. Amount in HK\$ is calculated at an exchange rate of HK\$1: RMB0.91268 (being the median exchange rate as quoted by the People's Bank of China as at 28 June 2024) for illustrative purpose.
3. Calculated based on 1,920,125,199 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 “7. Analysis of the Offer Price – Comparison of Offer Price against NAV per Share and Adjusted NAV per Share” below.

## 5. Outlook of the Group

As disclosed in the 2023 Annual Report and the 2024 Interim Report, China's tire industry saw a comprehensive recovery in operating conditions as the global automotive industry chain recovering and export-driven growth. In addition, the PRC government has rolled out a series of policies to support the expansion of new energy vehicle consumption and stabilize fuel vehicle consumption, thereby promoting stable growth of the automobile industry and supporting stable and healthy operation of the industrial economy. According to the “Brief analysis of automobile industry production and sales in June 2024” published by the China Association of Automobile Manufacturers (a self-disciplined, non-profit social organization formed by enterprises, institutions and groups engaged in the production and operation of automobile complete vehicles, parts and automobile-related industries in China) on 22 July 2024, in the first half of 2024, the production and sales of automobiles reached 13.891 million and 14.047 million respectively, representing year-on-year growth of 4.9% and 6.1% respectively. In addition, the domestic tire production exceeded 500 million, an increase of 8.8% year-on-year, while tire exports increased by 5.3% year-on-year during the first half of 2024.

However, there are still many uncertainties amid the geopolitical tensions and economic uncertainties, including global hikes in inflation and interest rates which may negative impact the pace of global economic rebound, the uncertainty arising from the trade tensions between US/European countries and China, the rising tensions across the Middle East since late 2023 and the anticipated slowdown of the economic growth in China. According to the press release published by International Monetary

Fund (IMF) on 28 May 2024, IMF projects that China's economic growth remains resilient at 5 percent in 2024 and slows to 4.5 percent in 2025. Over the medium term, growth is expected to decelerate to 3.3 percent by 2029. As disclosed in the 2024 Interim Report, we note that (i) shipping expenses have risen quarter-on-quarter in the first half of 2024 due to the rising tensions across the Middle East; (ii) the Group is cautious about the impact of the increase in stock level and the slight decline in domestic logistic market sentiment to the sales of all steel cord in the second half of 2024. Based on market information provided by an independent research institution engaged by the Company, there was 2.1% year-on-year decrease in shipments of domestic truck tire cords (i.e. principal products of the Group) for the first eight months ended 31 August 2024; and (iii) several countries and regions in Europe and America have carried out anti-dumping investigations on tire products manufactured by China, which may negatively impact the Group's business.

It is uncertain as to the impacts of the challenging business environment above-mentioned may have on the future performance of the Group.

## **6. Background Information of the Offeror**

### ***The Offeror***

The Offeror, Great Trade Limited, is a company incorporated in the British Virgin Islands with limited liability. As at the Latest Practicable Date, Mr. Liu Jinlan, the Chairman and an executive Director, is the sole registered shareholder and sole director of the Offeror. The Offeror is principally engaged in investment holding.

As at the Latest Practicable Date, the Offeror and the Offeror Concert Parties are interested in 710,956,146 Shares, representing approximately 37.03% of the total issued share capital of the Company.

As at the Latest Practicable Date, there were 16,099,667 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, 325,000 and 217,000 Award Shares which remain unvested were granted to Mr. Liu Jinlan, Mr. Liu Xiang, Mr. Hang Youming, Mr. Wang Jin and Mr. Koo Fook Sun, Louis respectively.

Further information on the shareholding structure of the Company is set out in Letter from Shenwan Hongyuan in the Composite Document.

### ***Intention of the Offeror in relation to the Group***

As disclosed in the Letter from Shenwan Hongyuan in the Composite Document, the Offeror intends to continue with the Group's existing principal business. In particular, the Offeror has no intention to (i) introduce any major changes to the existing business and operation of the Group; (ii) discontinue the employment of any employees of the Group to make significant changes to any employment; or (iii) dispose of or re-deploy the fixed assets of the Company other than those in its ordinary and usual course of business.

The Offeror also does not have any intention, understanding, negotiation or arrangement (concluded or otherwise) to downsize, cessation, or dispose of existing business of the Group.

The Offeror will continuously review the business of the Group, and the Offeror reserves the right to make any changes that it deems necessary or appropriate to the business and operation of the Group to optimize the value of the Group and in the interest of the overall Shareholders.

***Intention of the Offeror to maintain the listing of the Company***

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

As disclosed in the Letter from Shenwan Hongyuan in the Composite Document, the Offeror intends the Company to remain listed on the Stock Exchange. The sole director of the Offeror will undertake to the Stock Exchange to take appropriate steps to ensure that sufficient public float exists in the Shares.

Based on the above, we note that the Company's listing status will be maintained and the Independent Shareholders who do not accept the Offer will continue to be able to trade their Shares on market after the close of the Offer.

Also, we note that no material changes in terms of the business and operations are expected after the close of the Offer. There appears no material concern of the Offeror introducing radical changes to the Group which may materially alter the prevailing status and situations of the Group. We are of the view that this allows the Independent Shareholders to conduct their own assessments of whether to continue investing in the Shares based on development of the Group that they are already informed of.

The Offer provides an exit alternative for the Independent Shareholders who would like to realise their investments in the Shares, nevertheless, for those Independent Shareholders who, after reading through the recent financial statements of the Company and/or the Composite Document, are optimistic about the future prospects of the Group after the Offer, may, having regard to their own circumstances, consider retaining all or any part of their Shares.

**7. Analysis of the Offer Price**

To assess the fairness and reasonableness of the Offer Price, we have considered the following factors.

### ***Offer Price Comparison***

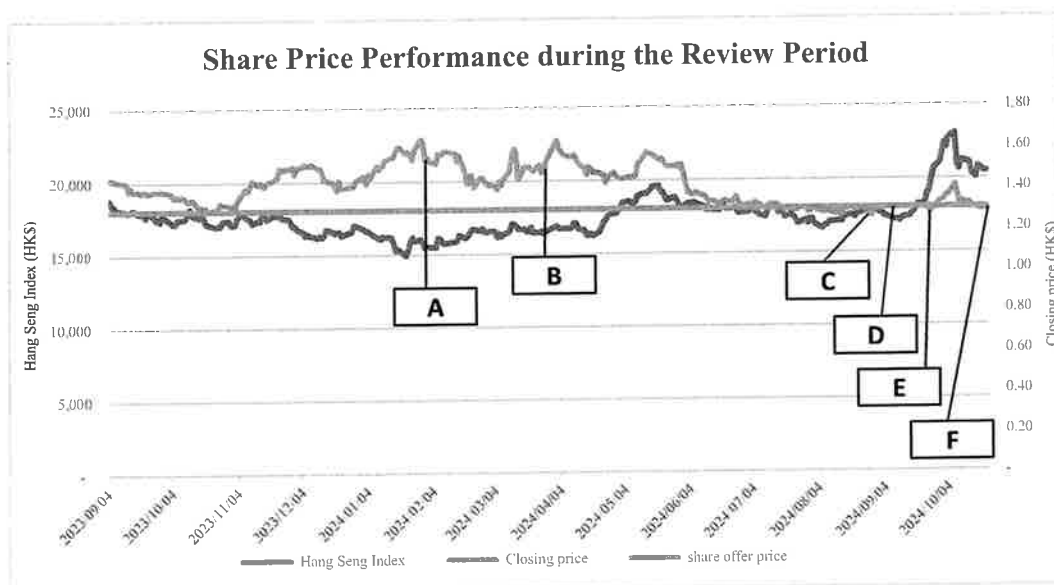
The Offer Price of HK\$1.30 per Offer Share represents:

- (a) a premium of approximately 0.78% over the closing price of HK\$1.29 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (b) equals to the closing price of HK\$1.30 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (c) a premium of approximately 0.78% over the average closing price of HK\$1.29 per Share as quoted on the Stock Exchange for the five (5) trading days up to and including the Last Trading Day;
- (d) a premium of approximately 1.01% over the average closing price of approximately HK\$1.287 per Share as quoted on the Stock Exchange for the 30 trading days up to and including the Last Trading Day;
- (e) a discount of approximately 67.92% to the Company's audited consolidated net asset value attributable to owners of approximately RMB3.672 (equivalent to approximately HK\$4.052) per Share as at 31 December 2023, calculated based on (i) the Company's audited consolidated net assets attributable to owners of approximately RMB6,104,923,000 as at 31 December 2023; (ii) 1,662,445,199 Shares in issue as at 31 December 2023; and (iii) the exchange rate of HK\$1: RMB0.90622, being the median exchange rate on 29 December 2023 as announced by the People's Bank of China;
- (f) a discount of approximately 64.18% to the Company's unaudited consolidated net asset value attributable to owners of approximately RMB3.312 (equivalent to approximately HK\$3.629) per Share as at 30 June 2024, calculated based on (i) the Company's unaudited consolidated net assets attributable to owners of approximately RMB6,359,088,000 as at 30 June 2024; (ii) 1,920,125,199 Shares in issue as at 30 June 2024; and (iii) the exchange rate of HK\$1: RMB0.91268, being the median exchange rate on 28 June 2024 as announced by the People's Bank of China; and
- (g) a discount of approximately 66.34% to the Adjusted NAV per Share as at 30 June 2024.

### ***Historical price movement of the Shares***

Set out below is the movement of the closing prices of the Shares as quoted on the Stock Exchange during the period from 4 September 2023 (being the date one year prior to the Last Trading Day) and up to and including the Latest Practicable Date (collectively, the "Review Period"). We are of the view that the price performance of Shares during the Review Period can sufficiently and fairly reflect

the market perception on the Company's performance and outlook and effects of certain events, which may be relevant to our analysis.



Source: the website of the Stock Exchange

Date	Key Events
31 January 2024	(A) Subscription of New Shares Under the General Mandate (“Subscription Announcement”)
25 March 2024	(B) Annual Results Announcement for FY2023
27 August 2024	(C) Interim Results Announcement for HY2024
4 September 2024	(D) Last Trading Day
25 September 2024	(E) Resumption of Trading following Publication of the Joint Announcement on 24 September 2024
22 October 2024	(F) Latest Practicable Date

During the Review Period, the highest and lowest closing prices of the Shares were HK\$1.65 on 29 January 2024 and HK\$1.26 per Share on 15 August 2024 and 29 August 2024 respectively. The average closing price per Share was approximately HK\$1.422 per Share during the Review Period. The Offer Price represented a discount of approximately 21.2% and 8.58% to the highest closing price per Share and average closing price per Share during the Review Period, respectively.

Since the beginning of the Review Period in early September 2023 to the Last Trading Day, the Shares closed between HK\$1.26 per Share on 15 August 2024 and 29 August 2024 respectively and HK\$1.65 per Share on 29 January 2024, with an average of HK\$1.429 per Share.

The closing prices of the Shares were relatively stable from the beginning of the Review Period to the end of December 2023, then the closing prices of the Shares started increasing and reached HK\$1.65 per Share on 29 January 2024 before the publication of the Subscription Announcement on 31 January 2024. The closing price per Share fell to HK\$1.55 per Share and HK\$1.56 per Share respectively on the date and the following day of the Subscription Announcement and it fluctuated between HK\$1.40 per Share and HK\$1.64 per Share from February 2024 to May 2024.

Since early June 2024, the Share price experienced a downward trend and dropped to HK\$1.26 per Share on 15 August 2024 and 29 August 2024 and it closed at HK\$1.30 per Share on the Last Trading Day. We note that the aforesaid downward trend was generally in line with Hang Seng Index at the relevant time and after making enquiries with the Management, we also note that the Management is not aware of any specific reason for such decline in the Share prices.

In addition, we note that no material fluctuations in the closing price of the Share were noted following the publication of the annual results announcement of the Company for FY2023 on 25 March 2024 and the interim results announcement of the Company for HY2024 on 27 August 2024, reflecting that the financial results of the Company may not have any material impact on its Share price.

Trading of the Shares was suspended during the period from 4 September 2024 to 24 September 2024 pending publication of the Joint Announcement. The closing prices of the Shares have been above or equal to the Offer Price for the majority of time following the Joint Announcement and up to the Latest Practicable Date. The closing price of the Shares declined to HK\$1.28 per Share following publication of the Joint Announcement on 25 September 2024 and the Shares closed between the lowest of HK\$1.28 per Share on 25 September 2024 to the highest of HK\$1.41 per Share on 7 October 2024 and the closing price of the Shares was HK\$1.29 per Share on the Latest Practicable Date.

Independent Shareholders, especially those with significant stakes, should note that if they wish to realise 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.

### ***Historical trading liquidity of the Shares***

The following table sets out the average daily trading volume of the Shares for each month or period and the percentages of such average daily trading volume to the total number of Shares in issue and held by the public during the Review Period.

<b>Month/Period</b>	<b>Monthly total trading volume</b>	<b>Number of trading days</b>	<b>Average daily trading volume (Note 1)</b>	<b>Percentage of the average daily trading volume to the total number of issued Shares (Note 2)</b>	<b>Percentage of the average daily trading volume to the total number of issued Shares held by the public (Note 3)</b>
<b>2023</b>					
4 September to 30 September	14,869,757	19	782,619	0.05%	0.08%
October	4,411,202	20	220,560	0.01%	0.02%
November	21,258,592	22	966,300	0.06%	0.10%
December	8,256,533	19	434,554	0.03%	0.04%
<b>2024</b>					
January	35,408,847	22	1,609,493	0.10%	0.16%
February	117,515,745	19	6,185,039	0.33%	0.54%
March	106,193,333	20	5,309,667	0.28%	0.44%
April	20,059,609	20	1,002,980	0.05%	0.08%
May	26,372,599	21	1,255,838	0.07%	0.10%
June	8,342,640	19	439,086	0.02%	0.04%
July	17,344,117	22	788,369	0.04%	0.07%
August	31,403,403	22	1,427,427	0.07%	0.12%
September	32,047,045	7	4,578,149	0.24%	0.38%
From 1 October to the Latest Practicable Date	36,225,331	14	2,587,524	0.13%	0.21%

*Source: The website of 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 in the respective month/period.
2. Percentage of average daily trading volume to the total number of issued Shares is calculated by dividing the average daily trading volume for the month/period by the total number of Shares in issue at the end of each month/period.
3. Percentage of average daily trading volume to the total number of issued Shares held by the public is calculated by dividing the average daily trading volume for the month/period by the total number of Shares in issue held by the Independent Shareholders as at the end of each month/period.



During the Review Period, the average daily trading volume of the Shares ranged between 220,560 Shares and 6,185,039 Shares, representing approximately 0.01% to 0.33% of the total number of Shares in issue as at the end of the respective month/period, and approximately 0.02% to 0.54% 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. Such low level of liquidity might cause difficulty for the Independent Shareholders to dispose of their Shares in the market. Therefore, we consider that the Offer provides an assured exit alternative for the Independent Shareholders, to realise part or all of their investments in the Shares at the Offer Price of HK\$1.30 per Offer Share if they wish so.

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

The Offer Price of HK\$1.30 represents:

- (a) a discount of approximately 67.92% to the Company's audited consolidated net asset value attributable to owners of approximately RMB3.672 (equivalent to approximately HK\$4.052) per Share as at 31 December 2023, calculated based on (i) the Company's audited consolidated net assets attributable to owners of approximately RMB6,104,923,000 as at 31 December 2023; (ii) 1,662,445,199 Shares in issue as at 31 December 2023; and (iii) the exchange rate of HK\$1: RMB0.90622, being the median exchange rate on 29 December 2023 as announced by the People's Bank of China;
- (b) a discount of approximately 64.18% to the Company's unaudited consolidated net asset value attributable to owners of approximately RMB3.312 (equivalent to approximately HK\$3.629) per Share as at 30 June 2024, calculated based on (i) the Company's unaudited consolidated net assets attributable to owners of approximately RMB6,359,088,000 as at 30 June 2024; (ii) 1,920,125,199 Shares in issue as at 30 June 2024; and (iii) the exchange rate of HK\$1: RMB0.91268, being the median exchange rate on 28 June 2024 as announced by the People's Bank of China; and
- (c) a discount of approximately 66.34% to the Adjusted NAV per Share as at 30 June 2024.

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:

<b>Year/period end</b>	<b>NAV per Share</b> <i>(Note 1)</i> <i>RMB</i>	<b>Average closing Share price</b> <i>(Note 2)</i> <i>HK\$</i>	<b>Discount to NAV per Share</b> <i>(Note 3)</i>
FY2021	3.429	1.473	64.87%
HY2022	3.406	1.584	60.23%
FY2022	3.528	1.520	61.51%
HY2023	3.515	1.459	61.73%
FY2023	3.672	1.397	65.53%
HY2024	3.312	1.287	64.53%

*(Note 4)*

*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 28 August 2024, being the trading day following the publication by the Company of its unaudited interim results for HY2024, to the Last Trading Day.
5. For illustrative purpose, based on the exchange rate of the median exchange rate published by the People's Bank of China on its website as at:

31 December 2021: HKD 1 = RMB0.81760

30 June 2022: HKD 1 = RMB0.85519

30 December 2022: HKD 1 = RMB0.89327

30 June 2023: HKD 1 = RMB0.92198

29 December 2023: HKD 1 = RMB0.90622

28 June 2024: HKD 1 = RMB0.91268

In addition, we noted that the Offer Price represented a discount of approximately 64.18% and 66.34% to the NAV per Share and the Adjusted NAV per Share as at 30 June 2024 respectively. We also note that the Offeror intends to continue the existing business of the Group.

Considering that as of 30 June 2024, approximately 45% of the consolidated total assets were non-current assets, mostly made up of property, plant, and equipment as well as right-of-use assets necessary for the Group's operations and not readily convertible into cash, 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 been traded at discount to 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 Independent 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, along with other factors including but not limited to (i) the financial performance and business prospects of the Group; (ii) Offer Price comparison to the historical and prevailing Share prices; and (iii) the trading liquidity of the Shares as set out in this letter, which are more relevant from the perspective of Independent Shareholders in considering their investment return in the Shares and whether or not to accept the Offer.

#### ***Comparable analysis***

In assessing the fairness and reasonableness of the Offer Price, we have performed analysis of the valuation of the Group at the Offer Price compared with prevailing market valuation of other companies listed on the Main Board of the Stock Exchange that are engaged in similar businesses to those of the Group. Based on the closing Share price of HK\$1.30 and the number of issued Shares of 1,920,125,199 Shares on the Last Trading Day, the market capitalisation of the Company was approximately HK\$2,496 million. In addition, we note that the Group has only one operating segment, which is sale of all steel tire cords, including radial tire cords, bead wires and other wires for automobiles and recorded profit attributable to owners of the Company of approximately RMB449 million for FY2023.

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 the sale of products related to radial tire cords, bead wires and other wires for automobiles. We consider the above selection criteria is fair and reasonable given the Company has only one operating segment with specific product type (i.e. all steel tire cords). We could only identify one comparable company namely Shougang Century Holdings Limited (stock code: 103.HK) (the "Comparable"), which is exhaustive based on the above criteria.

We have selected the use of price-to-earnings ratio (“**P/E Ratio**”), price-to-book ratio (“**P/B Ratio**”) for the purpose of the comparable company analysis because we consider such ratios are two of the most commonly used benchmarks for valuation of companies with a proven track record. Price-to-sales ratio (“**P/S Ratio**”) is not considered using the as a benchmark because the P/S Ratio is mainly used to value non-profit making companies and both the Company and the Comparable are profitable.

Set out below is the summary of our market comparable analysis:

No.	Company Name	Principal Business(es)	Market Capitalisation (HK\$' million) (Note 1)	P/E Ratio (times) (Note 2)	P/B Ratio (times) (Note 3)
1	Shougang Century Holdings Limited (103)	The group is principally engaged in manufacturing and distributing steel cords for radial tyres	695.23	11.12	0.41
	The Company (1899)	The Group is principally engaged in sale of products related to radial tire cords, bead wires and other wires.	2,496.16	5.04	0.36

Source: Bloomberg and the Stock Exchange

Notes:

1. Market capitalisation is calculated based on the closing share price and the number of shares in issue as at the Latest Practicable Date based on information from the website of the Stock Exchange. In the case of the Company, it is calculated based on the Offer Price.
2. Price-to-earning ratio is calculated by dividing market capitalisation as described in Note 1 above by profit attributable to owners of the company reported in its latest annual report.
3. Price-to-book ratio is calculated by dividing market capitalisation as described in Note 1 above by net asset value attributable to owners of the company reported in its latest interim report.

As shown in the above table, we note that both the P/E ratio and P/B ratio of the Comparable are higher than that of the Company. However, we note that there has been a substantial increase in share prices of the Comparable in the recent months. Based on our review of the trading data of the Comparable from the website of the Stock Exchange, the share prices of the Comparable have been traded on an upward trend during the Review Period, from the lowest of HK\$0.165 per share of the Comparable (the “**Comparable Share**”) on 25 October 2023 to the highest of HK\$0.356 per Comparable Share on 21 October 2024 with notable increases from around HK\$0.25 per Comparable Share in July 2024 to HK\$0.3 per Comparable Share or higher subsequent to the Comparable published announcements regarding, among others, transfers of certain shares by the shareholders of the Comparable of the Comparable at a final transfer price of HK\$0.863 per Comparable Share on 29 July 2024 and 8 August 2024. The closing price of the Comparable further increased to the highest of HK\$0.356 per Comparable Share on 21 October 2024 after the Comparable published an

announcement on 13 September 2024 regarding a rights issue with subscription price of HK\$0.33 per Comparable Share, representing a 10% premium to closing price of HK\$0.3 per Comparable Share on the date of relevant announcement.

As the substantial increase in Comparable's share prices in recent months may be associated with the abovementioned share dealing and fund raising activities of the Comparable, the P/E ratio and P/B ratio of the Comparable, which are calculated based on the share price of the Comparable, may not be a fair comparison for the assessment of the Offer Price. In addition, 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 Offer and is included for illustrative purposes only.

## RECOMMENDATION

In summary, in relation to the Offer, we have considered the below factors and reasons in reaching our conclusion and recommendations:

- (i) the Offer Price was lower than the closing prices of the Shares for majority of the time during the Review Period and represented a discount of approximately 21.2 % and 8.58% to the highest closing price of the Share of HK\$1.65 and the average closing price of the Share of HK\$1.422 during the Review Period respectively. In addition, the closing prices of the Shares have been above or equal to the Offer Price for the majority of time following the Joint Announcement and up to the Latest Practicable Date. The Share was closed at HK\$1.29 per Share as at the Latest Practicable Date;
- (ii) the trading of the Share has been thin during the Review Period, the Offer could provide the Shareholders with the opportunity to realise part/all of their investments in the Company with certainty;
- (iii) the Group's operation had been profitable in the past. However, given the complexity of the macroeconomic situation, there are challenges and uncertainties facing by the Group as discussed in the paragraph headed "5. Outlook of the Group" under the section headed "Principal Factors and Reasons Taken into Consideration on the Offer";
- (iv) the Offer Price represents a discount to the NAV per Share and Adjusted NAV per Share. However, Shareholders should note that it may not be appropriate to assess the fairness and reasonableness of the Offer Price solely by comparing the Offer Price solely to the NAV per Share and/or the Adjusted NAV per Share as (i) the Shares had been consistently traded at discounts to the NAV per Share for the past three years, (ii) the Offeror intends to continue the existing business of the Group; and (iii) a large portion of the Group's consolidated total assets as at 30 June 2024 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; and
- (v) although there is no fixed dividend policy and the declaration and the payout of dividend are contingent upon the Company's financial results for and financial position in the future years, the Company has a consistent track record of paying final dividends in the past, Shareholders looking for dividend yields may find the Company's steady dividend payout history attractive.

In light of the above, we consider the Offer Price is not attractive given the considerations set out in items (i), (iv) and (v) mentioned above, rendering the Offer to be not fair and not reasonable so far as the Independent Shareholders are concerned, and advise the Independent Board Committee to recommend the Independent Shareholders not to accept the Offer.

Notwithstanding our recommendation that the Offer Price is not fair and not reasonable, we would like to remind the Independent Board Committee to remind the Independent Shareholders to closely monitor the market price and liquidity of the Shares during the Offer Period, and for those Shareholders who are less optimistic about the outlook and future prospects of the Group and may wish to realise their investment, should having regard to their own circumstances and investment objectives, consider selling their Shares in the open market, should such sale proceeds, net of all transaction costs, exceed the amount receivable under the Offer. However, if the market price falls below the Offer Price toward the end of the Offer Period, they may then consider tendering all or part of their holdings to the Offer, should they still wish to realise their investment.

**As different Shareholders would have different investment criteria, objectives or risk appetite and profiles, we recommend any 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.**

Yours faithfully,  
For and on behalf of  
**BaoQiao Partners Capital Limited**



**Irene Poon**  
*Executive Director*

*Ms. Irene Poon is a responsible officer registered under the SFO to carry out Type 6 (advising on corporate finance) regulated activity for BaoQiao Partners Capital Limited and has over 20 years of experience in the accounting and corporate financial services industry.*