

28 June 2024

To: The Independent Board Committee of Kin Yat Holdings Limited

Dear Sirs,

**(1) PROPOSED PRIVATISATION OF KIN YAT HOLDINGS LIMITED
BY RESPLENDENT GLOBAL LIMITED
BY WAY OF A SCHEME OF ARRANGEMENT
UNDER SECTION 99 OF THE COMPANIES ACT 1981 OF BERMUDA;
AND
(2) PROPOSED WITHDRAWAL OF LISTING OF
KIN YAT HOLDINGS LIMITED**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to the Independent Board Committee on the Proposal, details of which are set out in the Scheme Document of the Company dated 28 June 2024, of which this letter forms part. Unless otherwise specified, terms used in this letter shall have the same meanings as those defined in the Scheme Document.

Reference is made to the Joint Announcement, pursuant to which on 27 March 2024, after trading hours, the Offeror requested the Board to put forward the Proposal to the Scheme Shareholders for the privatisation of the Company by way of a scheme of arrangement under section 99 of the Companies Act. Under the Scheme, if the Proposal is approved and implemented, among others, all Scheme Shares held by the Scheme Shareholders will be cancelled and extinguished by way of the reduction of issued share capital of the Company on the Effective Date, in exchange for the payment of the Cancellation Price of HK\$0.72 in cash for each Scheme Share cancelled. On the other hand, as at the Latest Practicable Date, there were 700,000 outstanding Options granted under the Share Option Scheme with an exercise price of HK\$2.262 or HK\$2.470. The Offeror is making the Option Offer to all the Option Holders for the cancellation of each Option in accordance with Rule 13 of the Takeovers Code. Under the Option Offer, the Offeror is offering the Option Holders the Option Offer Price, which is a nominal amount of HK\$0.01 per outstanding Option, for the cancellation of each outstanding Option they hold, as the exercise price of each Option exceeds the Cancellation Price and the “see-through” price (being the Cancellation Price minus the exercise price of each Option) is negative. The Option Offer is conditional upon the Scheme becoming effective.

THE INDEPENDENT BOARD COMMITTEE

Pursuant to Rule 2.1 of the Takeovers Code, the Board has established the Independent Board Committee comprising all independent non-executive Directors, namely Mr. Wong Chi Wai, Mr. Cheung Wang Ip and Mr. Chan Yim Por Bonnie, to advise the Disinterested Scheme Shareholders and the Option Holders as to whether the Proposal is or is not fair and reasonable and as to the acceptance of the Option Offer, and as to voting by the Disinterested Scheme Shareholders at the Court Meeting and the SGM.

We, Lego Corporate Finance Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee in relation to the Proposal. Our appointment as the Independent Financial Adviser has been approved by the Independent Board Committee.

Apart from the normal professional fees for our services to the Company in connection with the Proposal, no other arrangement exists whereby we will receive any fees and/or benefits from the Group or the Offeror. We have not acted, within the past two years, as an independent financial adviser or a financial adviser to the Company or the Offeror. As at the Latest Practicable Date, we were not aware of any relationships or interests between us and the Group and the Offeror and their respective controlling shareholders, controlled companies and/or any party acting in concert with any of them that could reasonably be regarded as relevant to our independence. We are independent under the Takeovers Code to act as the independent financial adviser to the Independent Board Committee in connection with the Proposal.

BASIS OF OUR ADVICE

In arriving at our recommendation, we have reviewed, inter alia, the Joint Announcement, the annual report of the Group for the year ended 31 March 2022 (the “**2022 Annual Report**”), the 2023 Annual Report, the 2024 Results Announcement, and the independent valuation reports (the “**Valuation Reports**”) of properties interests of the Group (the “**Properties**”) located in the PRC and Hong Kong as conducted by Valplus Consulting Limited (the “**Principal Valuer**”), as well as those located in Malaysia as jointly conducted by the Principal Valuer and VPC Alliance (KL) Sdn. Bhd. (the “**Malaysian Valuer**”, or collectively with the Principal Valuer, the “**Valuers**”), as at 31 March 2024 (the “**Valuation Date**”). We have relied on the statements, information and representations contained or referred to the Joint Announcement, the Scheme Document and the information provided and representations made to us by the Directors and the management of the Company (the “**Management**”). We have assumed that all the statements, information and representations contained or referred to in the Joint Announcement, the Scheme Document and all information provided and representations made by the Directors and the Management for which they are solely responsible, are true and accurate at the time they were provided and made as at the Latest Practicable Date. Disinterested Scheme Shareholders and Option Holders will be notified of material changes as soon as possible, if any, to the information and representations provided and made to us as well as to the content of this letter after the Latest Practicable Date according to Rule 9.1 of the Takeovers Code. We have no reason to doubt the truth, accuracy and completeness of the information provided and representations made to us by the Directors and the Management. We consider that the information provided and representations made to us are sufficient for us to form a reasonable basis for our opinion. We are not aware of any reason to suspect any relevant information has been withheld; nor are we aware of any fact or circumstance which would render the information provided and representations made to us untrue, inaccurate or misleading. The Directors have

confirmed that, having made all reasonable enquiries and to the best of their knowledge, they believe that there are no other facts or representations the omission of which would make any statement in the Scheme Document, including this letter, incorrect or misleading. We have not carried out any independent verification of the information provided and representations made to us by the Directors and the Management; nor have we conducted any independent investigation into the business and affairs of the Group and the Offeror.

This letter is issued for the purpose of advising the Independent Board Committee regarding the Proposal, and except for its inclusion in the Scheme Document, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In giving our recommendations on the Proposal to the Independent Board Committee, we have taken into account the following principal factors and reasons:

1 Information of the Group

The Group is principally engaged in the development and production of electrical and electronic products as well as the provision of electric motor drives and related products under its own house brand. It is also engaged in the real estate development in the PRC.

1.1 Financial information of the Group

Set out in Table 1 below is certain financial information of the Group for each of the three years ended 31 March 2022, 31 March 2023 and 31 March 2024 as extracted from the 2023 Annual Report and the 2024 Results Announcement.

Table 1: Financial information of the Group

	For the year ended 31 March		
	2024 (audited) HK\$'000	2023 (audited) HK\$'000	2022 (audited) HK\$'000
Revenue	1,103,944	1,209,602	2,316,315
(Loss)/profit for the year attributable to owners of the Company	(212,132)	(294,169)	56,858

	As at 31 March		
	2024	2023	2022
	(audited) HK\$'000	(audited) HK\$'000	(audited) HK\$'000
Non-current assets	721,398	1,001,611	1,240,517
Current assets	1,102,940	1,094,602	1,677,566
Current liabilities	(921,948)	(836,697)	(1,151,842)
Net current assets	180,992	257,905	525,724
Non-current liabilities	(46,801)	(154,831)	(176,331)
Net assets	855,589	1,104,685	1,589,910

For the year ended 31 March 2022

For the year ended 31 March 2022, the Group recorded revenue of approximately HK\$2,316.3 million, representing a moderate decrease of approximately 14.0% as compared to that of approximately HK\$2,693.9 million recorded for the previous year. According to the 2022 Annual Report, such decrease in revenue was primarily attributable to the combination client mix optimisation and the adverse impacts of the COVID-19 pandemic such as the reduced consumer sentiment, significant increase in raw material and production costs as well as the supply chain disruptions during the year ended 31 March 2022.

For the year ended 31 March 2022, the Group recorded profit attributable to owners of the Company of approximately HK\$56.9 million, representing a substantial decrease of approximately 45.1% as compared to that of approximately HK\$103.6 million for the preceding year. With reference to the 2022 Annual Report, such decrease in profit attributable to owners of the Company was mainly due to the decrease in turnover, along with the impairment loss from changes in fair value of the Group's real estate development projects in Dushan County, PRC, as well as the absence of certain COVID-19-related grants and subsidies during the year ended 31 March 2022.

As at 31 March 2022, the Group recorded net current assets and net assets of approximately HK\$525.7 million and approximately HK\$1,589.9 million, respectively.

For the year ended 31 March 2023

For the year ended 31 March 2023, the Group recorded revenue of approximately HK\$1,209.6 million, representing a substantial decrease of approximately 47.8% as compared to that of approximately HK\$2,316.3 million recorded for the previous year. According to the 2023 Annual Report, such decrease in revenue was primarily attributable to the reduced global consumer sentiment caused by the uncertainties of supply chain brought by COVID-19 and the Russia-Ukraine conflict, a surge in commodity prices, rising interest rates and inflation, leading to a decrease in sales volume, especially for the E&E Segment.

For the year ended 31 March 2023, the Group recorded loss attributable to owners of the Company of approximately HK\$294.2 million, against the profit attributable to owners of the Company of approximately HK\$56.9 million recorded for the preceding year. With reference to the 2023 Annual Report, such decrease in the Group's earnings was mainly due to, among others, the significant decrease in revenue, as well as the non-recurring and non-cash impairment losses incurred by the Real Estate Development Business Segment and the manufacturing business segments (including the E&E Segment and the Motors Segment) of the Group due to the long-suffering China's property market and the tough manufacturing market landscape during the year ended 31 March 2023.

As at 31 March 2023, the Group recorded net current assets and net assets of approximately HK\$257.9 million and approximately HK\$1,104.7 million, respectively.

For the year ended 31 March 2024

For the year ended 31 March 2024, the Group recorded revenue of approximately HK\$1,103.9 million, representing a decrease of approximately 8.7% as compared to that of approximately HK\$1,209.6 million recorded for the previous year. According to the 2024 Results Announcement, such decrease in revenue was primarily attributable to slow order replenishment and delaying orders due to the prevailing consumer conservatism and sluggish demand for consumer products.

For the year ended 31 March 2024, the loss attributable to owners of the Company reduced to approximately HK\$212.1 million as compared to that of approximately HK\$294.2 million for the preceding year. With reference to the 2024 Results Announcement, such decrease in the Group's loss was mainly due to net effect of (i) the recognition of the impairment losses amounting to approximately HK\$152.6 million mainly incurred by the Motors segment; and (ii) the reduction in impairment loss incurred by the Real Estate Development Business Segment to approximately HK\$26.5 million for the year ended 31 March 2024 from approximately HK\$240.1 million in the previous year due to the absence of non-recurring loss arising from the write-off of the development and construction costs of the Shelved Phase of The Jardin Montsouris in the previous year.

As at 31 March 2024, the Group recorded net current assets and net assets of approximately HK\$181.0 million and approximately HK\$855.6 million, respectively.

1.2 Prospect of the Group

The Group focuses on, among others, the development and production of electrical and electronic products for orders from clients based primarily in the United States of America and other regions including Europe and Asia, as well as electric motor drives and related products for orders from clients primarily based in Asia. With the relevant production facilities located in the PRC and Malaysia, the E&E Segment and the Motors Segment represent the principal business segments of the Group that have collectively accounted for more than 99% of its respective corresponding total annual revenues for the year ended 31 March 2024. In assessing the future prospect of the Group, we have primarily taken into account the future prospects of the E&E Segment and the Motors Segment with reference to (i) the recent performances of such segments; and (ii) the recent trends as well as the future outlooks of the global economy and consumer sentiment, which have been closely associated with the demand for the electrical and electronic products as well as electric motors drives, and accordingly the sales performance of the E&E Segment and the Motors Segment.

(i) Recent performance of the E&E Segment and the Motors Segment

According to the 2023 Annual Report, since its first break-out in 2020, COVID-19 has continued to bring lingering impacts to both the demand and supply sides, and the then sustained lockdowns have created notable pressure on the Group's operation, affecting labour availability, raw material supply, production efficiency and export logistics. According to the 2024 Results Announcement, the global business landscape did not stabilise despite the world transitioning to the post-COVID era. Meanwhile, the Russia-Ukraine conflict has triggered a reshuffle in the global supply chain and a surge in commodity price, which, compounded by the then rising interest rates and inflation, have collectively made the global consumer to be more conservative and price sensitive over purchasing, adversely affecting the performances of both the E&E Segment and the Motors Segment. Besides, based on the updates on consumer confidence issued monthly in 2022 by Ipsos (<https://www.ipsos.com/>), a multinational market research and consulting firm with an establishment of over 45 years, the global consumer sentiment had been relatively low and generally on a downward path for most of the months in 2022 with a monthly average of approximately 47.0 throughout the year. From 2023 onwards, despite the global consumer sentiment had been generally improving amid the recovery of the COVID-19 pandemic, it is noted that the global consumer sentiment, which recorded at approximately 47.4 per month on average in 2023 and reached approximately 48.8 in May 2024, had not yet fully recovered back to the pre-pandemic levels of approximately 49.4 in 2019 and approximately 50.3 in 2018. For further details on the analysis of consumer sentiment with respect to specific relevant countries/region, please refer to the sub-section below headed "(ii) Recent trends and future outlooks of the global economy and consumer sentiment" of this letter.

Specifically, the E&E Segment exhibited a significant year-on-year decrease of approximately 63.7% in external revenue and recorded a loss of approximately HK\$15.2 million for the year ended 31 March 2023, against the segmental profits of approximately HK\$37.6 million recorded for the preceding year. With reference to the 2023 Annual Report, the deteriorated performance of the E&E Segment during the year ended 31 March 2023 was mainly contributed by the absence of a previous significant client whose service contract with the Group was completed by the year ended 31 December 2022, as well as the aforesaid decline in the global consumer sentiment. While the Group's client mix was transiting towards a set of diversified clients with margins at relatively normal market norms, and that the termination of the business cooperation with the previous significant client with lower margins would potentially free up the necessary production capacity and resources for new applications and new clients, it appears that the E&E Segment has thus far failed to fully pick up the performance. With reference to the 2024 Results Announcement, the E&E Segment exhibited a year-on-year decrease of approximately 4.6% in external revenue. The deteriorated performance of the E&E Segment during the year ended 31 March 2024 was mainly contributed by the conservative orders from existing clients and slow product development across sectors, due to the weaker consumer appetite and challenging macroeconomic environment. Although there were signs of recovery in the latest quarter of the financial year, the order levels led to a relatively low-capacity utilisation rate. Despite stringent cost control and streamlining measures, the drop in business scale was larger than expected, resulting in an operating loss. However, after the one-off disposal gain of assets in Shaoguan, the PRC under the Three Old Renovation amounting to HK\$61.8 million and specific impairment provisions of property, plant and equipment of approximately HK\$11.1 million, the E&E segment recorded a profit of approximately HK\$51.5 million for the year ended 31 March 2024 against a loss of approximately HK\$15.2 million in the previous year.

In respect of the Motors Segment, for the year ended 31 March 2023, the segment generated external revenue and profits of approximately HK\$745.5 million and approximately HK\$0.3 million, respectively, representing respective significant year-on-year decreases of approximately 28.6% and approximately 99.5% as compared to those generated for the preceding year. According to the 2023 Annual Report, the aforesaid notably affected global consumer sentiment and the resulted contraction in downstream demand for motors have caused the customers of the Group, who are mostly brand owners, to become more prudent in placing orders and new product development, leading to a decrease in sales volume and revenue of the Motors Segment during the year ended 31 March 2023. For the year ended 31 March 2024, the segment generated external revenue of approximately HK\$660.2 million, representing a year-on-year decrease of approximately 11.5% as compared to those generated for the preceding year. Furthermore, the segment recorded a loss of approximately HK\$163.1 million for the year ended 31 March 2024, representing a deteriorating performance against the profit recorded for the preceding year. According to the 2024 Results Announcement, the Motors Segment faced challenges such as geopolitical incidents, high interest and inflation rates, weaker-than-expected household consumer sentiment, and overconsumption during the pandemic. Product throughput has been slow and branded partners generally reduced or delayed new orders and new product development due to the global economic slowdown during the year ended 31 March 2024. The decline in segmental results was mainly attributable to the decrease in segmental revenue, rising raw material costs and the appreciation of major operating expenses, partially offset by benefits of the RMB depreciation.

(ii) *Recent trends and future outlooks of the global economy and consumer sentiment*

According to the report named “Global economics intelligence executive summary, January 2024” issued on 21 February 2024 by McKinsey & Company (<https://www.mckinsey.com/>), an American multinational strategy and management consulting firm founded in 1926 that offers professional services to customers including corporations and governments, the mixed economic indicators have pointed to an uncertain global economic outlook for 2024. It is suggested in the report that with positives such as, among others, growth in services and stability across multiple indicators including unemployment, the global economy is juxtaposed with a subdued manufacturing environment, a decline in global trade flows, renewed uncertainties about supply chains and lingering inflation.

In fact, it is noted that similar viewpoints have been set out in the report named “World economic outlook” issued on 16 April 2024 by International Monetary Fund (<https://www.imf.org/>), a global organisation founded by 44 member countries and established in 1944 that sought to build a framework for economic cooperations. According to the report, global economic growth, estimated at 3.2% in 2023, is projected to remain the same for 2024 and 2025, and such pace of expansion is relatively low as compared to the recorded historical annual average of 3.8%, owing to both near-term factors such as still-high borrowing costs and withdrawal of fiscal support, as well as longer-term effects from the COVID-19 pandemic and Russia’s invasion of Ukraine, weak growth in productivity and increasing geoeconomic fragmentation. The medium-term projection for the global economic growth, on the other hand, has been consistently revised downward, and is anticipated to reach its lowest of 3.1% in 2029, primarily attributable to a significant decrease in total factor productivity, slower capital formation and the consistent decline in labour contribution. It is suggested in the report that despite the generally resilient global economy recently, there remain prominent risks and uncertainties to the global growth such as the slower-than-expected decline in core inflation in major economies as a result of the renewed tensions in supply chains, and the intensifying geoeconomic fragmentation which could reduce foreign direct investment flows, slow the pace of innovation and technology adoption and constrain the flow of commodities, resulting in large output loss and commodity price volatility.

On the other hand, for the purpose of our assessment, we have specifically made reference to the recent patterns of the consumer sentiment and business sentiment of the PRC, the United States of America and Europe according to the statistics released by the Organisation for Economic Co-operation and Development (“OECD”) (<http://www.oecd.org/>), an intergovernmental organisation with 38 member countries founded in 1961 with an aim to stimulate economic progress, on the basis that such countries/region represent the most significant geographical locations of revenue in respect of the E&E Segment and/or the Motors Segment. With reference to the website of OECD, consumer confidence index provides an indication of future developments of households’ consumption and saving based upon the expectations over the financial situations, general economic situation and major purchases for the next 12 months, whereby an indicator above 100 indicates a boost in the consumer’s confidence towards the future economic situation, as a consequence of which consumers are less prone to save and more inclined to spend money in the next 12 months, and an indicator below 100 indicates a pessimistic attitude towards the future economic developments, possibly resulting in a tendency to save more and consume less. Based on the statistics released by OECD, the consumer confidence indices of the United States of America and Europe had remained at levels below 100 since April 2020 and December 2021, respectively, towards May 2024, whereas that of the PRC had remained at a level below 100 since March 2022 towards April 2024 (being the latest month of which the index level in respect of the PRC was released by OECD as at the Latest Practicable Date), demonstrating a generally negative consumer confidence towards the economic developments of such countries/region in the near future. On the other hand, according to OECD, business confidence index provides indication on future developments based upon developments in production, orders and stock of finished goods in the industry sector and can be used to monitor output growth and to anticipate turning points in economic activities, whereby an indicator above 100 suggests an increased confidence in the near future business performance and an indicator below 100 indicates pessimism towards the near future business performance. It is noted that the business confidence indices of the United States of America and Europe had been generally decreasing since around December 2021 and remained at levels below 100 since July 2022 and May 2023, respectively. In respect of the PRC, the business confidence index had been generally oscillating downwards and remained at a level below 100 since December 2020 towards May 2024. The above patterns accordingly demonstrate the general pessimism towards the business performances of each of the PRC, the United States of America and Europe in the near future.

Accordingly, taking into account (i) the recent performance of the Group's principal businesses, in particular the deteriorating revenue of both the E&E Segment and the Motors Segment; and (ii) the uncertain global economic outlook featured with, among others, the relatively flat projected trend of the global economic growth in the next two years and the even weakened projection in the medium term, the generally negative recent consumer sentiment and business confidence of the PRC, the United States of America and Europe, as well as the supply chain disruptions, we are of the view that the prospects of the E&E Segment and the Motors Segment, and accordingly that of the Group, would be generally uncertain in the future.

1.3 Assessment of the Valuation Reports

In formulating our recommendations on the Proposal, we have reviewed the Valuation Reports, further details of which are set out in Appendix II to the Scheme Document, and conducted interviews with the Valuers regarding, among others, their relevant qualifications and experiences, independence and principal bases and assumptions adopted therein. According to the relevant information provided by the Valuers and our independent research conducted from the public domain, the Principal Valuer is a comprehensive corporate consultancy and financial services provider offering a wide range of services including but not limited to valuation, mergers and acquisitions advisory, digital asset consultation and industry researches to customers in Hong Kong, Southeast Asia and around the world. On the other hand, as a subsidiary of VPC Asia Pacific Ltd. (collectively with subsidiaries, the "VPC Group") (<https://www.vpcasiapacific.com/>) being an established firm of international property consultants and advisers with more than 35 offices and staff of over 450 peoples spread in seven countries in Asia Pacific including but not limited to Malaysia, Singapore and Japan, the Malaysian Valuer, which is based in Kuala Lumpur, represents one of the 10 offices of the VPC Group throughout Malaysia and offers different services including but not limited to valuation, property management, market survey and feasibility studies, as well as estate agency and investment. In particular, we noted that Mr. Damon S.T. Wan, being the responsible person in charge of the Valuation Reports, is a charter holder of Chartered Financial Analyst, a certified Financial Risk Manager and a member of Royal Institution of Chartered Surveyors ("RICS"), who has been working in the professional valuation field for over 15 years and possesses experience in performing properties, financial instruments, intangible assets and business valuations for the purposes of corporate advisory, merger and acquisition and public listing. It is further noted that the Principal Valuer and members of the VPC Group including the Malaysian Valuer have previous experience in performing valuations of property interests of listed companies in Hong Kong. Based on the above, as well as during the course of our review of the Valuation Reports and discussions with the Valuers, we were not aware of any material facts that would cause us to cast doubts on the qualifications of the Valuers for conducting the Valuation Reports. We have also reviewed the relevant engagement letter between the Company and the Principal Valuer and between the Principal Valuer and the Malaysian Valuer and noted that the scope of work is appropriate to the opinion required to be given, and there are no limitations on the scope of work which might adversely affect the degree of assurance given by the Principal Valuer in the Valuation Reports. In addition, each of the Principal Valuer and the Malaysian Valuer confirmed that it was an independent third party to the Group, the Offeror and their respective connected persons and any parties acting in concert with any of them as at the Latest Practicable Date.

In addition, we have reviewed the Valuation Reports and discussed with the Valuers the methodologies, bases and assumptions adopted in arriving at the appraised value of the Properties as at the Valuation Date. With reference to the Valuation Report, the Properties consists of 13 properties located in Hong Kong, the PRC and Malaysia, each of which either comprises property unit(s) and/or car parking spaces or land parcel(s), or is a combination of land parcel(s) with building(s) and structure(s) erected thereon. In appraising the Properties, the Valuers have adopted (i) direct comparison method by making reference to comparable market evidence; or (ii) a combination of direct comparison method and cost method; or (iii) investment method, where appropriate, subject to factors such as the nature of the underlying Properties and the availability of the relevant market evidence. The cost method considers the cost to reproduce or replace in new conditions the Properties in accordance with the current market prices for similar assets, as evidenced by observed condition or obsolescence present arising from physical, functional or economic causes, as well as the actual costs incurred for upgrading the Properties. Investment method, on the other hand, has considered the capitalisation of rental income potential of the Properties. As advised by the Valuers, each of the direct comparison method, cost method and investment method is commonly adopted valuation approaches for valuing properties of similar nature as the Properties.

As stated in the Valuation Reports, the valuations of the Properties were prepared in accordance with the requirements set out in Rule 11 of the Takeovers Code, Chapter 5 and Practice Note 12 of the Listing Rules, the International Valuation Standards published by the International Valuation Standards Council and the RICS Valuation – Global Standards published by the RICS and where applicable, the Malaysian Valuation Standards 6th Edition issued by the Board of Valuers, Appraisers, Estate Agents and Property Managers, Malaysia.

Based on the above, we consider that the principal bases and assumptions adopted by the Valuers in respect of the valuation of the Properties are appropriate. According to the Valuation Reports, the appraised values of the Properties located in Hong Kong, the PRC and Malaysia amounted to approximately HK\$18.2 million, approximately RMB696.1 million (equivalent to approximately HK\$767.1 million) and approximately 12.8 million Ringgit (equivalent to approximately HK\$21.0 million), respectively, as at the Valuation Date, which collectively led to an aggregated appraised value of the Properties as at the Valuation Date in the amount of approximately HK\$806.3 million. With reference to the Scheme Document, taking into account of (i) the consolidated net asset value of the Group attributable to Shareholders of approximately HK\$855.6 million as at 31 March 2024; and (ii) adjustments made for revaluation deficit of the Group, the reassessed net asset value of the Group attributable to the Shareholders as at 31 March 2024 (the “**Reassessed NAV**”) amounted to approximately HK\$743.6 million.

2. Analysis of the Cancellation Price

The Cancellation Price of HK\$0.72 per Scheme Share represents:

- (a) a premium of approximately 33.3% over the closing price of HK\$0.54 per Share as quoted on the Stock Exchange on the Last Trading Date (the “**Last Trading Price**”);
- (b) a premium of approximately 43.4% over the average closing price of approximately HK\$0.50 per Share, based on the daily closing prices as quoted on the Stock Exchange over the 5 trading days up to and including the Last Trading Date (the “**5-Day Average Price**”);
- (c) a premium of approximately 51.5% over the average closing price of approximately HK\$0.48 per Share, based on the daily closing prices as quoted on the Stock Exchange over the 30 trading days up to and including the Last Trading Date (the “**30-Day Average Price**”);
- (d) a premium of approximately 53.6% over the average closing price of approximately HK\$0.47 per Share, based on the daily closing prices as quoted on the Stock Exchange over the 60 trading days up to and including the Last Trading Date (the “**60-Day Average Price**”);
- (e) a premium of approximately 72.1% over the average closing price of approximately HK\$0.42 per Share, based on the daily closing prices as quoted on the Stock Exchange over the 180 trading days up to and including the Last Trading Date (the “**180-Day Average Price**”);
- (f) a premium of approximately 7.5% over the closing price of HK\$0.67 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (g) a discount of approximately 63.1% to the audited consolidated net asset value attributable to Shareholders per Share of approximately HK\$1.95 as at 31 March 2024; and
- (h) a discount of approximately 57.4% to the Reassessed NAV per Share of approximately HK\$1.69.

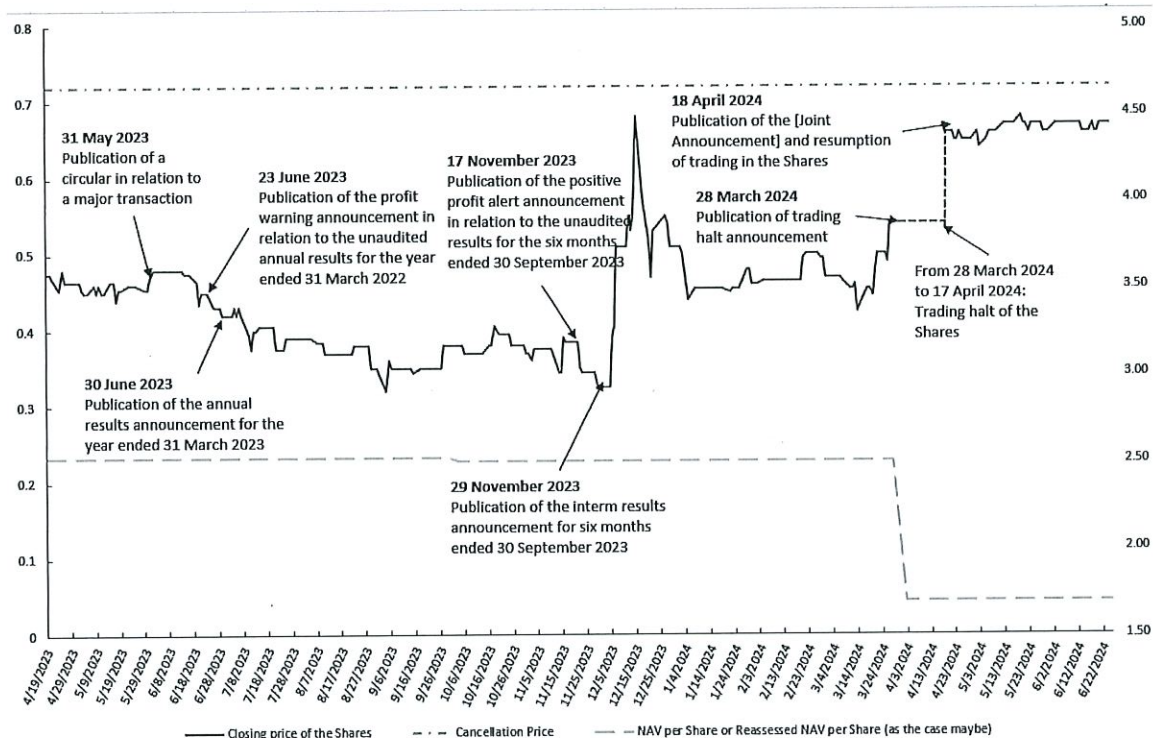
For other terms and conditions of the Proposal, please refer to the Letter from the Board contained in the Scheme Document.

In assessing the fairness and reasonableness of the Cancellation Price, we have primarily taken into account (i) the historical price performance of the Shares; (ii) the historical trading liquidity of the Shares; and (iii) comparison with other comparable privatisation exercises, with an attempt to make reference with the comparison with other comparable companies, details of the analyses of which are respectively set out below.

2.1. Historical price performance of the Shares

Set out in the Chart 1 below shows the historical movements of daily closing price of the Shares during the period from 19 April 2023, being the date falling one year prior to the Announcement Date, up to and including the Latest Practicable Date (the “Review Period”), as well as the NAV per Share as at 31 March 2023, 30 September 2023 and 31 March 2024, respectively, being all year/interim period end dates during the Review Period. We consider the Review Period, which is of approximately 14 months covering the year prior to the Announcement Date and the period thereafter up to and including the Latest Practicable Date, reasonable and representative for the purpose of our analysis as it covers a sufficiently long period reflecting the performance of the Share price surrounding the announcements of financial results of 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.

Chart 1: Daily closing price of the Shares during the Review Period



Source: the website of the Stock Exchange (<http://www.hkex.com.hk>)

During the Review Period, closing price of the Shares ranged from the lowest of HK\$0.32 per Share on 4 September 2023 to the highest of HK\$0.68 per Share on 15 December 2023 and 20 May 2024, with an average closing price of approximately HK\$0.47 per Share during the Review Period. Accordingly, the Cancellation Price of HK\$0.72 per Scheme Share represents a premium over the closing price of the Shares throughout the entire Review Period, whereby it represents a premium of 125.0% over the lowest closing share price of HK\$0.32 per Share, a premium of approximately 5.9% to the highest closing share price of HK\$0.68 per Share and a premium of approximately 53.2% to the average closing share price of HK\$0.47 per Share during the Review Period.

Since the beginning of the Review Period, closing price of the Shares had been fluctuating downward until around the end of November 2023. Following the publication of the interim results announcement by the Company for the six months ended 30 September 2023 on 29 November 2023, closing price of the Shares had been trending upward and reached its peak of HK\$0.68 per Share on 15 December 2023, upon which it had been decreasing and reached HK\$0.47 per Share on 21 December 2023. Thereafter, closing price of the Shares had been generally oscillating between HK\$0.425 per Share and HK\$0.55 per Share towards 27 March 2024, being the Last Trading Date before commencement of the trading halt of the Shares on 28 March 2024. Immediately following the publication of the Joint Announcement and resumption of trading in the Shares on 18 April 2024, closing price of the Shares surged to HK\$0.67 per Share on the same date, and had then been maintained at a similar level ranging from HK\$0.64 per Share to HK\$0.68 per Share thereafter towards the end of the Review Period. Save for the publication of announcements of the Company as described above, the Directors were not aware of any specific reasons which may have led to the abovementioned fluctuations of the closing price of the Shares during the Review Period.

Accordingly, notwithstanding that the Cancellation Price of HK\$0.72 per Scheme Share represents a discount of approximately 57.4% to the Reassessed NAV per Share, it is worth noting that the Cancellation Price represents a premium over the closing price of the Shares throughout the entire Review Period, and the surge in the closing price of the Shares immediately after publication of the Joint Announcement was potentially contributed by the market reactions towards the Proposal. Considering the continuous loss-making performance of the Group for the two years ended 31 March 2024, as well as the uncertain prospect of the Group as analysed in the sub-section headed “1.2 Prospect of the Group” above of this letter, we are of the view that it remains uncertain as to whether the recent level of closing price of the Shares will remain sustainable or even rise to a level over the Cancellation Price in the future.

2.2. Historical trading liquidity of the Shares

Table 2 below sets out the average daily trading statistics of the Shares during the Review Period.

Table 2: Average daily trading statistics of the Shares during the Review Period

Month/period	Average trading volume (Approximate number of Shares) (Note 1)	Percentage of average daily trading volume of the Shares over the total number of issued Shares	Percentage of average daily trading volume of the Shares over the total number of issued Shares held by the Disinterested Shareholders as at the Latest Practicable Date
		(Approximate %) (Note 2)	(Approximate %) (Note 3)
2023			
April (from 19 April 2023)	486,750	0.111	0.330
May	342,476	0.078	0.232
June	83,619	0.019	0.057
July	52,200	0.012	0.035
August	22,609	0.005	0.015
September	49,895	0.011	0.034
October	64,100	0.015	0.043
November	28,636	0.007	0.019
December	398,316	0.091	0.270
2024			
January	48,545	0.011	0.033
February	67,895	0.015	0.046
March	134,200	0.031	0.091
April	2,686,667	0.612	1.819
May	823,524	0.188	0.558
June (Up to and including the Latest Practicable Date)	114,750	0.026	0.078

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

Notes:

1. Calculated by dividing the total trading volume of the Shares for the respective corresponding months/periods by the total numbers of trading days of the Shares in the respective corresponding months/periods.
2. Based on total number of Shares in issue at the end of each of the respective corresponding months/periods.
3. Based on the total number of Shares in issue of 147,706,000 Shares held by the Disinterested Scheme Shareholders as at the Latest Practicable Date.

As illustrated in the above table, the trading liquidity of the Shares was generally thin during the Review Period, with the average daily trading volumes of the Shares having accounted for a range from approximately 0.005% to 0.612% over the total number of Shares in issue as at the end of the relevant month/period and a range from approximately 0.015% to approximately 1.819% of the total number of Shares in issue held by the Disinterested Scheme Shareholders as at the Latest Practicable Date.

Given the thin historical average daily trading volume of the Shares, it is uncertain as to whether there would be sufficient liquidity in the Shares for the Disinterested Scheme Shareholders to dispose of a significant number of Shares in the open market without exerting a downward pressure on the Share price. Considering the above and that the Cancellation Price represents a premium over the closing price of the Shares throughout the entire Review Period, we are of the view that the Proposal provides the Disinterested Scheme Shareholders with an assured exit if they wish to realise their investments in the Shares without exerting downward pressure on the trading price of the Shares.

2.3. Comparable analysis

In assessing the fairness and reasonableness of the Cancellation Price, in light of the loss-making performance of the Group for the year ended 31 March 2024, we have initially attempted to carry out a comparable analysis with reference to the valuation of other comparable companies by using commonly adopted valuation methods including price-to-book ratio and price-to-sale ratio.

For the purpose of our assessment, we have initially attempted to identify companies which were, as at the Latest Practicable Date, (i) listed on the Stock Exchange; and (ii) principally engaged in the same principal businesses as the Group, namely development and production of electrical and electronic products with the principal geographical location of revenue being the United States of America as well as motor drives and related products business with the principal geographical location of revenue being Asia, whereby the total annual revenue for these business segments having accounted for more than 50% of the total consolidated revenue during the respective latest financial years. However, according to our search conducted from the website of the Stock Exchange (<https://www.hkex.com.hk/>) and the LSEG Workspace, a financial data platform operated by the London Stock Exchange Group (“LSEG”) (<https://www.lseg.com/>), based on the aforesaid selection criteria, we have failed to identify any comparables having met all of the aforesaid selection criteria.

Accordingly, we have subsequently relaxed the selection criteria to identify companies which were, as at the Latest Practicable Date, (i) listed on the Stock Exchange; and (ii) principally engaged in the development and production of electrical and electronic products as well as the motor drives and related products business, with such segments having collectively accounted for more than 50% of the total consolidated revenue during the respective latest financial years, regardless of the relevant principal geographical locations of revenue. Yet, based on our search conducted from the website of the Stock Exchange and the LSEG Workspace, we have failed to identify any comparables having met all of the aforesaid extended selection criteria.

In assessing the fairness and reasonableness of the Cancellation Price, we have further identified comparable privatisation exercises which, as at the date of the Joint Announcement, (i) were initially announced by companies listed on the Stock Exchange at the relevant time during the Relevant Period; (ii) involved cash considerations only; and (iii) had been completed or approved by the relevant disinterested scheme shareholders or the required acceptance level had been achieved, as the case may be. It is worth noting that the underlying listed issuers may or may not be identical to the Company in terms of principal business, operations and financial positions. Nevertheless, we consider that the comparable analysis could provide us with a general reference for the common market practice for determining the cancellation price under the recent successful privatisation exercises.

According to our research conducted from the website of the Stock Exchange based on the aforesaid selection criteria, an exhaustive list of 12 comparable privatisation exercises (the “**Comparable Transactions**”) has been identified to have met the aforesaid selection criteria. Details of the Comparable Transactions are summarised in Table 3 below.

Table 3: A summary of the Comparable Transactions

Date of the first announcement issued pursuant to Rule 3.5 of the Takeovers Code	Company (Stock code)	Premium/ (discount) of the cancellation price/offer price over/(to) the closing price/average closing price					Premium/ (discount) of the cancellation price/offer price over/(to) the latest net asset value ("NAV")/ reassessed NAV per share (Note 1)
		for the 5 trading days prior to and including the last trading day	for the 30 trading days prior to and including the last trading day	for the 60 trading days prior to and including the last trading day	for the 180 trading days prior to and including the last trading day	on the last trading day	
		(Approximate %)	(Approximate %)	(Approximate %)	(Approximate %)	(Approximate %)	(Approximate %)
08/05/2023	Hailan Holdings Limited (2278.HK)	5.0	5.0	5.0	5.1	3.8	(60.2)
28/05/2023	Golden Eagle Retail Group Limited (3308.HK)	63.4	66.6	55.3	49.9	45.2	(47.4)
11/06/2023	Mason Group Holdings Limited (273.HK)	20.7	20.7	19.0	16.2	19.0	(60.1)
23/06/2023	Yongsheng Advanced Materials Company Limited (3608.HK)	58.7	55.8	52.9	38.5	28.7	(46.5)
27/06/2023	Poly Culture Group Corporation Limited (3636.HK)	77.6	112.5	133.1	129.8	138.4	(30.9)
27/06/2023	Dali Foods Group Company Limited (3799.HK)	37.9	36.4	30.2	21.8	14.7	151.7
01/09/2023	CST Group Limited (985.HK)	61.3	24.4	36.6	(1.4)	(33.8)	(60.7)
15/09/2023	Lansen Pharmaceutical Holdings Limited (503.HK)	26.8	24.1	20.0	15.4	23.3	(22.1)
06/10/2023	Pine Care Group Limited (1989.HK)	(1.1)	0.7	1.5	8.94	43.8	(7.9)
06/10/2023	Haitong International Securities Group Limited (665.HK)	114.1	111.1	126.5	122.2	110.5	(39.3)
04/12/2023	Weiqiao Textile Company Limited (2698.HK)	104.7	104.9	111.1	142.9	144.9	(78.3)
14/12/2023	Sinosoft Technology Group Limited (1297.HK)	29.4	30.4	31.1	22.5	14.2	(78.9)
	Minimum	(1.1)	0.7	1.5	(1.4)	(33.8)	(78.9)
	Maximum	114.1	112.5	133.1	142.9	144.9	151.7
	Median	48.3	33.4	33.9	22.2	26.0	(47.0)
	Average	49.9	49.4	51.9	47.6	46.1	(31.7)
18/04/2024	The Company	33.3	43.4	51.5	53.6	72.1	(57.4) (Note 2)

Sources: The website of the Stock Exchange (<https://www.hkex.com.hk/>) and the LSEG Workspace

Notes:

1. Based on the latest NAV per share or reassessed NAV per share (where applicable) extracted from the relevant scheme documents of the Comparable Transactions.
2. The Reassessed NAV per Share was used.
3. The premiums/discounts over/to the respective last closing share prices/average closing share prices on/up to and including the respective last trading days were extracted from the respective relevant initial announcements/privatisation documents published on the website of the Stock Exchange; and in the event that such information were not disclosed therein, the aforesaid premiums/discounts were then computed based on the respective underlying cancellation prices or offer prices as extracted from the respective relevant initial announcement/privatisation documents published on the website of the Stock Exchange, as well as the respective relevant closing share prices as extracted from the LSEG Workspace due to the unavailability of historical closing share prices of delisted companies from the website of the Stock Exchange.

As shown in the table above, the premiums of the Cancellation Price over the Last Trading Price, the 5-Day Average Price, the 30-Day Average Price, the 60-Day Average Price and the 180-Day Average Price, respectively, are all within the respective corresponding ranges of the Comparable Transactions. In particular, the respective premiums represented by the Cancellation Price over the 5-Day Average Price, the 30-Day Average Price, the 60-Day Average Price and the 180-Day Average Price of approximately 43.4%, approximately 51.5%, approximately 53.6% and approximately 72.1% are above the respective corresponding medians of the premiums represented by the Comparable Transactions, and the respective premiums represented by the Cancellation Price over the 60-Day Average Price and the 180-Day Average Price are above the corresponding averages of the premiums represented by the Comparable Transactions.

On the other hand, we have assessed the historical NAV per Share against the closing price of the Shares during the Review Period. As observed in Chart 1 set out in section “2.1 Historical price performance of the Shares” above, the closing price of the Shares had been fluctuating downward until November 2023 and had been generally oscillating in an upward trend thereafter. On the other hand, the NAV per Share were approximately HK\$2.52 per Share, HK\$2.50 per Share as at 31 March 2023 and 30 September 2023, respectively, which were consistently stable, but then dropped to HK\$1.95 per Share or approximately HK\$1.69 per Share based on the Reassessed NAV as at 31 March 2024, opposing to the trend of the closing price of the Shares. Accordingly, it is considered that the Reassessed NAV per Share might not accurately reflect the intrinsic value of the Shares, and that the comparison with the closing price of the Shares during the Review Period, which in fact has incorporated the public sentiment towards the Group and represents the price at which the Shares were actually trading in the market, would be more relevant to the assessment of the fairness and reasonableness of the Cancellation Price. Nevertheless, for general reference purpose, we have conducted a comparison of the Cancellation Price with the Reassessed NAV per Share. As shown in Table 3 above, the Cancellation Price represents a discount of approximately 57.4% to the Reassessed NAV per Share of approximately HK\$1.69, as opposed to the corresponding median of a discount of approximately 47.0% and the corresponding average of a discount of approximately 31.7% as respectively represented by the Comparable Transactions, which falls within the corresponding range of the Comparable Transactions.

Accordingly, notwithstanding that the Cancellation Price of HK\$0.72 per Scheme Share represents a discount of approximately 57.4% to the Reassessed NAV per Share, taking into consideration (i) the Cancellation Price represents a premium over the closing price of the Shares throughout the entire Review Period, which in our view represents a more relevant factor when assessing the fairness and reasonableness of the Cancellation Price, as the NAV per Share might not accurately reflect the intrinsic value of the Shares, and the surge in the closing price of the Shares immediately after publication of the Joint Announcement was potentially contributed by the market reactions towards the Proposal and may not be sustainable; (ii) the generally thin trading liquidity of the Shares during the Review Period; (iii) all of the respective premiums of the Cancellation Price over the Last Trading Price, the 5-Day Average Price, the 30-Day Average Price, the 60-Day Average Price and the 180-Day Average Price are within the respective corresponding ranges of the Comparable Transactions, whereby in particular, the respective premiums represented by the Cancellation Price over the 5-Day Average Price, the 30-Day Average Price, the 60-Day Average Price and the 180-Day Average Price are above the respective corresponding medians of the premiums represented by the Comparable Transactions, and the respective premiums represented by the Cancellation Price over the 60-Day Average Price and the 180-Day Average Price are above the corresponding averages of the premiums represented by the Comparable Transactions; and (iv) the discount of the Cancellation Price to the Reassessed NAV per Share falls within the corresponding range of the Comparable Transactions, we are of the view that the Cancellation Price is fair and reasonable as far as the Disinterested Scheme Shareholders are concerned.

3. Analysis of the Option Offer Price

As at the Latest Practicable Date, there were 700,000 outstanding Options granted under the Share Option Scheme, of which 500,000 outstanding Options were exercisable into 500,000 Shares at an exercise price of HK\$2.262 and 200,000 outstanding Options were exercisable into 200,000 Shares at an exercise price of HK\$2.470, and all such outstanding Options were vested. The exercise of all outstanding Options in full would result in the issue of 700,000 new Shares (representing approximately 0.16% of the issued share capital of the Company as at the Latest Practicable Date and approximately 0.16% of the issued share capital of the Company as enlarged by issue of such new Shares). The Company does not intend to grant any further Options between the Latest Practicable Date and the Effective Date.

As set out in the Letter from the Board, under the Option Offer, the Offeror is making an appropriate offer to all the Option Holders for the cancellation of each Option in accordance with Rule 13 of the Takeovers Code. As the exercise price of each outstanding Option under the Share Option Scheme is above the Cancellation Price, which in our view is fair and reasonable as analysed above, the “see-through” price is negative and accordingly the Option Offer Price, which is a nominal amount of HK\$0.01 per outstanding Option, is being made for the cancellation of each Option. In light of the above, we are of the view that the Option Offer Price is fair and reasonable as far as the Option Holders are concerned.

RECOMMENDATIONS

The Scheme

Notwithstanding that the Cancellation Price of HK\$0.72 per Scheme Share represents a discount of approximately 57.4% to the Reassessed NAV per Share and failure to identify any comparable companies in terms of principal businesses that meet all of selection criteria set out in section “2.3 Comparable analysis” above, taking into consideration the above principal factors and reasons as set out in this letter, in particular:

- (i) with reference to the sub-section headed “1.2 Prospect of the Group” of this letter, the uncertain future prospect of the Group considering (1) the recent performance of the E&E Segment and the Motors Segment, in particular the deteriorating revenue of both segments; and (2) the uncertain global economic outlook featured with, among others, the relatively weakening projected trend of the global economic growth in the near future, the generally negative consumer sentiment and business confidence of the PRC, the United States of America and Europe, as well as the supply chain disruptions;
- (ii) the Cancellation Price represents a premium over the closing price of the Shares throughout the entire Review Period, and the surge in the closing price of the Shares immediately after publication of the Joint Announcement was potentially contributed by the market reactions towards the Proposal which may or may not be sustainable in the long run;
- (iii) the generally thin trading liquidity of the Shares during the Review Period, which implies the potential difficulties for the Disinterested Scheme Shareholders to dispose of a significant number of Shares in the open market without exerting a downward pressure on the Share price; and
- (iv) all of the respective premiums of the Cancellation Price over the Last Trading Price, the 5-Day Average Price, the 30-Day Average Price, the 60-Day Average Price and the 180-Day Average Price are within the respective corresponding ranges of the Comparable Transactions, whereby in particular, the respective premiums represented by Cancellation Price over the 5-Day Average Price, the 30-Day Average Price, the 60-Day Average Price and the 180-Day Average Price are above the respective corresponding medians of the premiums represented by the Comparable Transactions, and the respective premiums represented by the Cancellation Price over the 60-Day Average Price and the 180-Day Average Price are above the corresponding averages of the premiums represented by the Comparable Transactions;

we are of the view that the terms of the Proposal including the Cancellation Price are fair and reasonable as far as the Disinterested Scheme Shareholders are concerned, and we recommend the Independent Board Committee to advise the Disinterested Scheme Shareholders to vote in favour of the relevant resolutions to be proposed at the Court Meeting and the SGM to approve and implement the Proposal.

The Option Offer

Taking into consideration that the Option Offer Price of HK\$0.01 per outstanding Option was determined in accordance with Rule 13 of the Takeovers Code as the “see-through price” on the basis that the exercise price of each outstanding Option is above the Cancellation Price, which in our view is fair and reasonable, we are of the view that the Option Offer Price and Option Offer are fair and reasonable so far as the Option Holders are concerned, and we recommend the Independent Board Committee to advise the Option Holders to accept the Option Offer.

Disinterested Scheme Shareholders are reminded to closely observe and monitor the market price and liquidity of the Shares (in particular, when the closing price of the Shares are trading at a price close to the Cancellation Price) and consider selling their Shares in the open market, where possible, if the net proceeds (after deducting all transaction costs) exceed the net amount to be received under the Scheme.

Option Holders are reminded to closely monitor the market price and liquidity of the Shares and consider exercising the Options and selling their Shares accordingly in the market, where possible, if the net proceeds (after deducting all transaction costs) exceed the net amount to be received under the Option Offer.

Disinterested Scheme Shareholders and Option Holders are reminded that their investments in the Shares and/or their rights in the Options, as the case may be, are subject to their individual circumstances and investment objectives. Disinterested Scheme Shareholders and Option Holders are advised to read the Scheme Document carefully before taking any actions in respect of the Scheme and/or the Option Offer.

Yours faithfully,
For and on behalf of
Lego Corporate Finance Limited



Billy Tang
Managing Director

Note: Mr. Billy Tang is a licensed person registered with the SFC and a responsible officer of Lego Corporate Finance Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has over 25 years of experience in the accounting and investment banking professions.