



SOMERLEY CAPITAL LIMITED

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20 December 2024

To: The Huarui Offer Independent Board Committee

Dear Sirs,

**VOLUNTARY GENERAL CASH OFFER BY CHINA SECURITIES
(INTERNATIONAL) CORPORATE FINANCE COMPANY LIMITED ON
BEHALF OF HUARUI FENGQUAN DEVELOPMENT LIMITED TO ACQUIRE
ALL OF THE ISSUED SHARES IN THE COMPANY (OTHER THAN THOSE
ALREADY OWNED BY OR TO BE ACQUIRED BY HUARUI FENGQUAN
DEVELOPMENT LIMITED AND PARTIES ACTING IN CONCERT WITH IT)**

INTRODUCTION

We refer to our appointment to advise the Huarui Offer Independent Board Committee in connection with the Huarui Offer. The terms of the Huarui Offer are set out in the Huarui Offer Document dated 20 December 2024, of which this letter forms a part. Terms used in this letter shall have the same meaning as those defined in the Huarui Offer Document unless the context requires otherwise.

On 7 June 2024, Huarui notified the Company that it had a firm intention, subject to the satisfaction of the Pre-Conditions, through CSCI on behalf of Huarui, to make a voluntary conditional general cash offer to acquire all of the issued Shares (other than those already owned by or to be acquired by Huarui and parties acting in concert with it) at the Huarui Offer Price, being HK\$7.21 for each Huarui Offer Share. On 13 December 2024, Huarui and the Company jointly announced that the Pre-Conditions had been satisfied. The Huarui Offer is conditional on, among others, valid acceptances of the Huarui Offer having been received (and not, where permitted, withdrawn) by 4:00 p.m. on or prior to the Huarui Offer Closing Date (or such later time and/or date as Huarui may decide, subject to the rules of the Takeovers Code) in respect of such number of Shares which would result in Huarui and Huarui Concert Parties collectively holding more than 50% of the voting rights of the Company.



Subject to the Huarui Offer becoming unconditional and satisfaction of the requirements under the Companies Ordinance and the Takeovers Code, if Huarui acquires not less than 90% of the Huarui Offer Shares (as required by Section 693 of the Companies Ordinance) and not less than 90% of the Disinterested Shares within the Compulsory Acquisition Entitlement Period, Huarui intends to privatise the Company by exercising the compulsory acquisition rights to which it is entitled under Subdivision 2 of Division 4 of Part 13 of the Companies Ordinance to acquire the remaining Shares not acquired by Huarui under the Huarui Offer. On completion of the compulsory acquisition process (if the compulsory acquisition right is exercised), the Company will be held as to 100% by Huarui and Huarui Concert Parties and an application will be made for the withdrawal of the listing of the Shares from the Stock Exchange in accordance with Rule 6.15(1) of the Listing Rules.

Whilst it is the intention of Huarui to privatise the Company, Huarui's ability to exercise rights of compulsory acquisition in respect of the Huarui Offer Shares is dependent on the level of acceptance of the Huarui Offer and acquisitions reaching the prescribed level under Subdivision 2 of Division 4 of Part 13 of the Companies Ordinance and on the requirements of Rule 2.11 of the Takeovers Code being satisfied. If the Huarui Offer Shares validly tendered for acceptance under the Huarui Offer and otherwise acquired are less than 90% of the Huarui Offer Shares or less than 90% of the Disinterested Shares within the Compulsory Acquisition Entitlement Period, the Shares will remain listed on the Main Board of the Stock Exchange.

The Huarui Offer Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Cheng Yuk Wo ("**Mr. Cheng**"), Mr. Pun Tit Shan and Mr. Chen Jihua, has been established in accordance with Rules 2.1 and 2.8 of the Takeovers Code to advise and give a recommendation to the Disinterested Shareholders as to whether the terms of the Huarui Offer are fair and reasonable and as to the acceptance of the Huarui Offer. As stated in the 3.5 Announcement, taking into account that Mr. Zhou Yuan and Mr. Shen Tao (both are non-executive Directors) are directors of Huarui and Huarui Parent and Dr. Zhao Wei and Mr. Meng Fanjie (both are non-executive Directors) serve certain positions in COFCO, and China Foods (a wholly owned subsidiary of COFCO) has given the COFCO Irrevocable Undertaking to Champion in relation to the Champion Offer, each of Mr. Zhou Yuan, Mr. Shen Tao, Dr. Zhao Wei and Mr. Meng Fanjie is not considered as independent for the purpose of giving advice or recommendations to the Disinterested Shareholders despite China Foods is not acting in concert with Huarui and Champion. Mr. Cheng is also an independent non-executive director of Somerley Capital Holdings Limited (stock code: 8439), the holding company of Somerley Capital Limited. In accordance with Rule 2.1 of the Takeovers Code, the Independent Board Committee (with Mr. Cheng abstaining) has approved our appointment as the independent financial adviser to the Independent Board Committee.

We are not associated or connected with the Company, or Huarui, or their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them and, accordingly, are considered eligible to give independent advice on the Huarui Offer. Apart from normal professional fees payable to us in connection with this appointment and the appointment to advise the independent board committee of the Company in connection with the Champion Offer as set out in the response document of the Company dated 13 August 2024, no arrangement exists whereby we will receive any fees or benefits from the Company, or the Huarui, or their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them.



In formulating our opinion, we have relied on the information and facts supplied, and the opinions expressed, by the Directors and management of the Group, which we have assumed to be true, accurate and complete in all material aspects. We have reviewed, among other things, (i) the annual reports of the Company for the year ended 31 December 2022 (“FY2022”) (the “2022 Annual Report”) and year ended 31 December 2023 (“FY2023”) (the “2023 Annual Report”, together with the 2022 Annual Report, the “Annual Reports”), (ii) the interim report of the Company for the six months ended 30 June 2024 (“1H2024”) (the “2024 Interim Report”), (iii) the trading performance of the Shares on the Stock Exchange, (iv) the joint announcement of Huarui and the Company dated 13 December 2024 in relation to, among others, the updates on fulfilment of all pre-conditions of the Huarui Offer, and (v) other information contained in the Huarui Offer Document. We have sought and received confirmation from the Directors that no material facts have been omitted from the information supplied and opinions expressed to us. We consider that the information we have received is sufficient for us to reach our opinion and give our advice and recommendation set out in this letter. We have no reason to believe that any material information has been omitted or withheld, or to doubt the truth or accuracy of the information provided. We have not, however, conducted any independent investigation into the business and affairs of the Group, Huarui or any of their respective associates or any party acting, or presumed to be acting, in concert with any of them, nor have we carried out any independent verification of the information supplied. We have also assumed that all representations contained or referred to in the Huarui Offer Document in which this letter forms a part were true at the time they were made at the date of the Huarui Offer Document, and Shareholders will be informed of any future material change (including but not limited to our advice, opinion or recommendation set out in this letter) as soon as possible.

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

PRINCIPAL TERMS OF THE HUARUI OFFER

The Huarui Offer

The Huarui Offer is being made by CSCI for and on behalf of Huarui on the following basis:

For each Huarui Offer Share HK\$7.21 in cash

If any dividend, other distribution or return of capital (whether in cash or in kind), declared, made or paid in respect of the Shares after the date of the Huarui Offer Document, Huarui reserves the right to reduce the Huarui Offer Price by all or any part of the amount or value of such dividend, other distribution or return of capital, in which case any reference in the Huarui Offer or any other announcement or document to the Huarui Offer Price will be deemed to be a reference to the Huarui Offer Price as so reduced. As at the Latest Practicable Date, no dividend, other distribution or return of capital in respect of the Shares has been announced, declared or made but not paid and the Company does not have any intention to announce, declare, make or pay any future dividend, other distribution or return of capital until the close of Huarui Offer.



Huarui reserves the right to revise the terms of the Huarui Offer in accordance with the Takeovers Code.

The Huarui Offer will be made in compliance with the Takeovers Code. The Shares to be acquired under the Huarui Offer shall be fully paid and shall be acquired free from all liens, charges, encumbrances, pre-emptive rights and any other third-party rights of any nature and together with all rights attaching to them or subsequently becoming attached to them, including the right to receive all dividends, other distributions and return of capital, if any, announced, declared, made or paid after the Huarui Offer Closing Date.

Value of the Huarui Offer and confirmation of financial resources

As at the Latest Practicable Date, there were 1,113,423,000 Shares in issue. On the basis of the Huarui Offer Price of HK\$7.21 per Huarui Offer Share, the entire issued share capital of the Company is valued at HK\$8,027,779,830. Save for 269,341,200 Shares held by ORG Development, 2,326,000 Shares held by Hubei ORG and 403,000 Shares held by CSCI Investment, neither Huarui nor any of the Huarui Concert Parties held any Shares. 841,352,800 Shares in issue will be subject to the Huarui Offer and the aggregate amount payable by Huarui under the Huarui Offer will be approximately HK\$6,066,153,688 on the assumption that the Huarui Offer is accepted in full and there is no change in the number of issued Shares from the Latest Practicable Date up to the close of the Huarui Offer.

As disclosed in the letter from CSCI, Huarui intends to finance the consideration payable under the Huarui Offer by external financing from Shanghai Pudong Development Bank Co., Ltd acting through its Hong Kong Branch. Huarui has entered into the Share Charge to secure repayment of such external financing. As stated in the letter from CSCI, Huarui does not intend that the payment of interest on, repayment of or security for any liability (contingent or otherwise) thereunder will depend to any significant extent on the business of the Company.

CSCI, the financial adviser to Huarui, is satisfied that sufficient financial resources are available to Huarui to satisfy its payment obligations on full acceptance of the Huarui Offer in accordance with its terms.

Irrevocable Undertaking

On 6 June 2024, Mr. Zhang Wei (who holds 245,080,000 Shares, representing approximately 22.01% of the issued Shares as at the Latest Practicable Date) and Huarui entered into the Irrevocable Undertaking, pursuant to which, among other things, Mr. Zhang Wei has unconditionally and irrevocably agreed and undertaken to accept the Huarui Offer in respect of the Relevant Shares prior to the last acceptance date of the Huarui Offer, and Mr. Zhang Wei has undertaken not to withdraw such acceptance.

The Irrevocable Undertaking will be terminated immediately upon (i) the Huarui Offer having lapsed, been withdrawn or closed, (ii) the Pre-Conditions not having been satisfied on or before the Pre-Conditions Long Stop Date, (iii) if any person (other than Huarui) makes an offer to acquire the Shares at an offer price higher than the Huarui Offer Price, (iv) Huarui fails to complete the acquisition of the Relevant Shares within 6 months from the date of the Irrevocable Undertaking, or (v) the written consent of Huarui and Mr. Zhang Wei, whichever is earlier. The Irrevocable Undertaking has lapsed on 6 December 2024 given Huarui has not completed the acquisition of the Relevant Shares within 6 months from the date of the Irrevocable Undertaking.



Conditions to the Huarui Offer

The Huarui Offer is subject to the fulfilment of the following Conditions:

- (a) valid acceptances of the Huarui Offer having been received (and not, where permitted, withdrawn) by 4:00 p.m. on or prior to the Huarui Offer Closing Date (or such later time and/or date as Huarui may decide, subject to the rules of the Takeovers Code) in respect of such number of Shares which would result in Huarui and Huarui Concert Parties collectively holding more than 50% of the voting rights of the Company;
- (b) the Shares remaining listed and traded on the Stock Exchange up to the Huarui Offer Closing Date (or, if earlier, the Huarui Offer Unconditional Date) save for any temporary suspension(s) or halt(s) of trading in the Shares for not more than ten(10) consecutive Business Days or suspension or halt(s) of trading in the Shares as a result of the Huarui Offer and no indication having been received on or before the Huarui Offer Closing Date (or, if earlier, the Huarui Offer Unconditional Date) from the SFC and/or the Stock Exchange to the effect that the listing of the Shares on the Stock Exchange is or is likely to be withdrawn, other than as a result of either the Huarui Offer or anything done or caused by or on behalf of Huarui or the Huarui Concert Parties;
- (c) no event having occurred or already existing (including any law, order, action, proceeding, suit or investigation instituted or taken by the Relevant Authorities) which would make the Huarui Offer or the acquisition of any of the Shares void, unenforceable, illegal, impracticable or would prohibit implementation of the Huarui Offer or impose any material and adverse conditions or obligations with respect to the Huarui Offer;
- (d) since the date of the 3.5 Announcement, there having been no material adverse change in the business, assets, financial or trading positions, profits or prospects of any member of the Group (to an extent which is material in the context of the Group taken as a whole or in the context of the Huarui Offer); and
- (e) all necessary consents in connection with the Huarui Offer and/or (in the event that Huarui was to exercise the right to acquire compulsorily those Huarui Offer Shares not already owned or acquired by Huarui under the Huarui Offer) the possible withdrawal of the listing of the Shares from the Stock Exchange which may be required under any existing contractual or other obligations of the Group, joint ventures and controlled corporations of the Company having been obtained and remaining in effect.

As at the Latest Practicable Date and based on information available to Huarui, Huarui is not aware of any applicable consents which are required under Condition (e).

Other than Condition (a), Huarui reserves the right to waive, in whole or in part, all or any of the Conditions set out above. Pursuant to Note 2 to Rule 30.1 of the Takeovers Code, Huarui may only invoke any of the Conditions, other than Condition (a) which is an acceptance condition, as a basis for not proceeding with the Huarui Offer if the circumstances which give rise to the right to invoke any of the Conditions are of material significance to Huarui in the context of the Huarui Offer.



If any of the Conditions is not satisfied or waived (as applicable) on or before the Conditions Long Stop Date, the Huarui Offer will lapse, and Shareholders will be notified by a further announcement as soon as practicable thereafter. As at the Latest Practicable Date, none of the Conditions has been satisfied and/or waived.

Pursuant to Rule 15.3 of the Takeovers Code, Huarui must publish an announcement when the Huarui Offer becomes unconditional as to acceptances and when the Huarui Offer becomes unconditional in all respects. The Huarui Offer must also remain open for acceptance for not less than 14 days after it becomes or is declared unconditional (whether as to acceptances or in all respects). Shareholders are reminded that Huarui does not have any obligation to keep the Huarui Offer open for acceptance beyond this 14-day period.

WARNING: COMPLETION OF THE HUARUI OFFER IS SUBJECT TO THE CONDITIONS BEING FULFILLED OR WAIVED (AS APPLICABLE). THE ISSUE OF THE HUARUI OFFER DOCUMENT DOES NOT IN ANY WAY IMPLY THAT THE HUARUI OFFER WILL BE COMPLETED. THE HUARUI OFFER, MAY OR MAY NOT BECOME UNCONDITIONAL AND WILL LAPSE IF IT DOES NOT BECOME UNCONDITIONAL. ACCORDINGLY, SHAREHOLDERS AND POTENTIAL INVESTORS ARE ADVISED TO EXERCISE CAUTION WHEN DEALING IN THE SECURITIES OF THE COMPANY. PERSONS WHO ARE IN DOUBT AS TO THE ACTION THEY SHOULD TAKE SHOULD CONSULT THEIR STOCKBROKER, BANK MANAGER, SOLICITOR OR OTHER PROFESSIONAL ADVISER.

PRINCIPAL FACTORS AND REASONS CONSIDERED

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

1. Information on the Group

1.1 Background information of the Group

The Company is a limited liability company incorporated in Hong Kong, and is an investment holding company. The Group is principally engaged in the manufacturing and sales of packaging products for consumer goods such as food, beverages and household chemical products in the PRC.



1.2 Financial information of the Group

(i) Financial performance

Set out below is a summary of the Group's consolidated financial performance for the three years ended 31 December 2021 ("FY2021"), FY2022 and FY2023 and the six months ended 30 June 2023 ("1H2023") and 1H2024 respectively, as extracted from the Annual Reports and 2024 Interim Report:

	1H2024	1H2023	FY2023	FY2022	FY2021
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Audited)	(Audited)	(Audited)
Revenue	5,547,547	5,293,583	10,265,310	10,255,225	9,566,382
Cost of sales	(4,655,466)	(4,499,302)	(8,660,013)	(8,973,085)	(8,236,171)
Gross profit	892,081	794,281	1,605,297	1,282,140	1,330,211
Other income, gains and losses	14,042	57,335	105,070	224,853	142,245
Selling and marketing expenses	(205,032)	(196,748)	(392,930)	(393,955)	(409,853)
Administrative expenses	(228,017)	(219,390)	(455,147)	(431,206)	(431,922)
Finance costs	(140,952)	(101,356)	(238,489)	(87,717)	(65,590)
Share of results of joint ventures	2,225	1,334	2,491	1,978	1,568
Profit before income tax	334,347	335,456	626,292	596,093	566,659
Income tax expense	(59,604)	(63,888)	(140,814)	(111,415)	(93,200)
Profit for the period/year	274,743	271,568	485,478	484,678	473,459
Attributable to:					
Equity holders of the Company	266,930	273,269	474,760	486,512	462,498
Non-controlling interests	7,813	(1,701)	10,718	(1,834)	10,961

As shown above, total revenue of the Group has shown slow but stable growth during the three years ended 31 December 2023, and the products of the Group mainly include aluminum packaging, tinplate packaging and plastic packaging. As disclosed in the Annual Reports, the Company reported increases in revenue by approximately 7.2% from approximately RMB 9,566.4 million in FY2021 to RMB10,255.2 million in FY2022. The increase in revenue was mainly due to the growth in sales revenue from aluminum packaging products in FY2022 by 20.3% as compared to FY2021. The revenue slightly increases by 0.1% to approximately RMB10,265.3 million in FY2023. For 1H2024, the total revenue of the Group has increased by approximately 4.8% from approximately RMB5,293.6 million in 1H2023 to approximately RMB5,547.5 million in 1H2024, mainly due to the increment of sales revenue from the Group's tinplate packaging business.



Gross profit of the Group decreased by approximately 3.6% in FY2022 from approximately RMB1,330.2 million in FY2021 to approximately RMB1,282.1 million in FY2022, with a gross margin of around 12.5% in FY2022. As disclosed in the 2022 Annual Report, the Group was impacted by higher raw material costs during FY2022. Gross profit of the Group increased by approximately 25.2% to approximately HK\$1,605.3 million in FY2023 with a gross margin of around 15.6%. This was mainly attributable to the impact of technology cost reduction and the prices of raw material dropped. The gross profit margin in 1H2024 was approximately 16.1%, representing a slight increase from approximately 15.0% gross margin in 1H2023, which was mainly due to the impact of reducing unit costs due to scale growth and cost reduction and efficiency improvement.

Profit for the year attributable to equity holders of the Company was approximately RMB486.5 million in FY2022 as compared to approximately RMB462.5 million in FY2021, representing an increase of approximately 5.2%. Such increase was mainly a result of (i) higher revenue reported for FY2022 as mentioned above; and (ii) increase in other income, gains and losses by approximately 58.2% to approximately RMB224.9 million in FY2022 due to gain on disposal of a subsidiary.

Profit for the year attributable to equity holders of the Company for FY2023 was slightly reduced to approximately RMB474.8 million, representing a decrease of approximately 2.4%. Despite there was a significant improvement on the gross profit in FY2023, the increase was partially offset by (i) the increase of finance costs due to the increase in integrated financing interest rate; and (ii) the decrease of other income, gains and losses due to absence of committed dividend income from a former joint venture and gain on disposal of a subsidiary in FY2022.

Profit for the period attributable to equity holders of the Company for 1H2024 was approximately RMB266.9 million, as compared to approximately RMB273.3 million in 1H2023, representing a decrease of approximately 2.3%. Such decrease was mainly a result of (i) the decrease of government grants recognised in 1H2024, and (ii) higher finance cost due to the increase in foreign exchange rates and comprehensive financing costs, partially offset by the increase of gross profit as mentioned above and decrease of income tax expense.

The Company paid total dividends per Share of RMB0.207 for FY2021 and RMB0.218 for FY2022 respectively. The Company declared an interim dividend of RMB0.122 per Share for the six months ended 30 June 2023 and resolved not to declare final dividend for FY2023 nor interim dividend for 1H2024.



(ii) *Financial position*

Set out below are the summarised consolidated balance sheets of the Group as at 31 December 2022 and 31 December 2023 and 30 June 2024 as extracted from the 2023 Annual Report and the 2024 Interim Report:

	As at 30 June 2024	As at 31 December 2023	As at 31 December 2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)	(Audited)
Non-current assets			
Property, plant and equipment	5,859,276	5,972,123	5,730,086
Right-of-use assets	419,055	423,432	420,458
Goodwill	233,973	233,973	233,973
Other intangible assets	18,309	19,646	20,270
Interests in joint ventures	101,740	51,011	20,917
Deposits for purchase of items of property, plant and equipment	43,702	93,179	189,129
Prepayments	40,176	43,572	44,299
Deferred tax assets	21,019	24,643	24,811
	<u>6,737,250</u>	<u>6,861,579</u>	<u>6,683,943</u>
Current assets			
Inventories	1,500,091	1,728,040	1,770,419
Trade and bills receivables	3,496,247	2,819,521	2,738,201
Prepayments, other receivables and other assets	381,438	375,176	386,109
Tax recoverable	346	987	24
Pledged deposits and restricted deposit	36,394	65,719	115,743
Cash and cash equivalents	2,232,579	2,391,737	2,380,067
	<u>7,647,095</u>	<u>7,381,180</u>	<u>7,390,563</u>
Total assets	<u>14,384,345</u>	<u>14,242,759</u>	<u>14,074,506</u>



	As at 30 June 2023 <i>RMB'000</i> (Unaudited)	As at 31 December 2023 <i>RMB'000</i> (Audited)	As at 31 December 2022 <i>RMB'000</i> (Audited)
Current liabilities			
Trade and bills payables	2,535,390	2,300,044	2,422,478
Other payables and accruals	370,221	509,763	504,894
Lease liabilities	14,955	13,084	12,002
Interest-bearing bank borrowings	4,864,694	5,033,996	3,824,249
Tax payable	40,606	48,825	64,770
	<u>7,825,866</u>	<u>7,905,712</u>	<u>6,828,393</u>
Net current (liabilities)/assets	<u>(178,771)</u>	<u>(524,532)</u>	<u>562,170</u>
Non-current liabilities			
Government grants	15,756	16,574	13,604
Interest-bearing bank borrowings	225,360	246,665	1,387,199
Lease liabilities	76,941	74,348	64,852
Deferred tax liabilities	76,989	71,568	52,056
	<u>395,046</u>	<u>409,155</u>	<u>1,517,711</u>
Total liabilities	<u>8,220,912</u>	<u>8,314,867</u>	<u>8,346,104</u>
Net assets	<u>6,163,433</u>	<u>5,927,892</u>	<u>5,728,402</u>
EQUITY			
Equity attributable to equity holders			
Share capital	2,730,433	2,730,433	2,730,433
Reserves	3,054,234	2,824,793	2,648,311
	<u>5,784,667</u>	<u>5,555,226</u>	<u>5,378,744</u>
Non-controlling interests	378,766	372,666	349,658
Total equity	<u>6,163,433</u>	<u>5,927,892</u>	<u>5,728,402</u>



Total non-current assets of the Group were mainly comprised of property, plant and equipment which are currently occupied and/or used for daily business operations and represented around 85.7%, 87.0% and 87.0% of the total non-current assets as of 31 December 2022, 31 December 2023 and 30 June 2024 respectively. Total non-current assets of the Group as at 30 June 2024 remained largely similar as that of 31 December 2023.

Total current assets of the Group were mainly comprised of inventories, trade and bills receivables and cash and cash equivalents as of 31 December 2022, 31 December 2023 and 30 June 2024. Total current assets of the Group as at 31 December 2023 amounted to approximately RMB7,381.2 million, which remained relatively steady compared to the total current assets of the Group as at 31 December 2022 amounted to approximately RMB7,390.6 million. Total current assets of the Group as at 30 June 2024 amounted to approximately RMB7,647.1 million, represented an increase of approximately 3.6% compared to the total current assets as at 31 December 2023, which was mainly due to the increase of trade and bills receivables of approximately RMB676.7 million.

Total current liabilities of the Group mainly comprised trade and bills payables and interest-bearing bank borrowings as of 31 December 2022, 31 December 2023 and 30 June 2024. Total current liabilities of the Group as at 31 December 2023 increased by approximately 15.8% as compared with that of 31 December 2022 mainly attributable to, among others, the increase of short-term interest-bearing bank borrowings from approximately RMB3,824.2 million as at 31 December 2022 to approximately RMB5,034.0 million as at 31 December 2023. Total current liabilities of the Group as at 30 June 2024 amounted to approximately RMB7,825.9 million, remained largely similar as that of 31 December 2023. Consequently, the Group recorded net current liabilities of approximately RMB524.5 million and approximately RMB178.8 million as at 31 December 2023 and 30 June 2024 respectively. As stated in the 2023 Annual Report and 2024 Interim Report, the Group had sufficient undrawn borrowing facilities of not less than RMB2 billion, subject to certain conditions, and the Group may refinance and/or restructure certain short-term borrowings into long-term borrowings and will also consider alternative sources of financing, where applicable.

Total non-current liabilities of the Group mainly comprised long-term interest-bearing bank borrowings as at 31 December 2022, 31 December 2023 and 30 June 2024. Total non-current liabilities of the Group as at 31 December 2023 decreased by approximately 73.0% as compared to 31 December 2022 mainly due to decreases in long-term bank borrowing by around 82.2% from approximately RMB1,387.2 million as at 31 December 2022 to approximately RMB246.7 million as at 31 December 2023, mainly as a result of the reclassification of such borrowings to current liabilities. Total non-current liabilities of the Group as at 30 June 2024 amounted to approximately RMB395.0 million, remained largely similar as that of 31 December 2023.



Gearing ratio (calculated as net borrowings divided by equity attributable to equity holders of the Company, in which the net borrowings are calculated as total borrowings less cash and cash equivalents) of the Group was approximately 52.0% as at 31 December 2023 and approximately 52.6% as at 31 December 2022, which demonstrated a relatively stable debt level of the Group during the two years. The gearing ratios of the Company has slightly decreased to approximately 49.4% as at 30 June 2024.

Total equity attributable to the Company's equity holders as at 31 December 2022, 31 December 2023 and 30 June 2024 was approximately RMB5,378.7 million, RMB5,555.2 million and RMB5,784.7 million respectively.

Based on 1,113,423,000 issued Shares as at the Latest Practicable Date, the net asset value attributable to equity holders of the Company per Share as at 30 June 2024 was approximately RMB5.20 per Share (equivalent to approximately HK\$5.69 per Share) as at 30 June 2024. The Huarui Offer Price of HK\$7.21 represents a premium of approximately 26.7% to the net asset value attributable to equity holders of the Company per Share as at 30 June 2024.

2. Information on Huarui

Huarui is a company incorporated in Hong Kong with limited liability. It is principally engaged in investment holdings activities.

As at the Latest Practicable Date, Huarui is indirectly wholly owned by Huarui Consulting which in turn is wholly owned by View Harmony Packaging which is owned as to 95.83% by Huarui Parent and 4.17% by Suzhou SLAC.

Huarui Parent is a joint stock company established in the PRC with limited liability, the shares of which are listed on the Shenzhen Stock Exchange (Stock Code: 002701). The single largest shareholder of Huarui Parent is Yuanlong Holdings which holds approximately 32.84% of the issued shares of Huarui Parent. Mr. Zhou is the beneficial owner of 78% equity interests in Yuanlong Holdings. In addition to Yuanlong Holdings, Mr. Zhou is also the beneficial owner of 80% equity interests in several companies which collectively hold approximately 0.70% of the total issued shares of Huarui Parent. Huarui Parent is a comprehensive packaging solution provider with a focus on brand planning, packaging design and manufacturing, filling services, and information-assisted marketing.



3. Prospects of the Group

As discussed above under the section headed “1.1 Background information of the Group”, principal activities of the Group are the manufacture and sales of packaging products for consumer goods such as food, beverages and household chemical products in the PRC. The Group has established a solid customer base, including domestically and internationally renowned enterprises in the high-end customer good industry, including but not limited to Coca-Cola, Tsingtao Brewery, Sinochem Group, Feihe, Mengniu, Unilever. As mentioned in the 2024 Interim Report, in 1H2024, the Ministry of Commerce deployed a series of activities to promote stable growth in consumption under the “Consumption-Promoting Year (消費促進年)”, and the implementation of new policies has injected new vitality into the economic growth and facilitated the steady recovery of the consumer market in general. According to website of the Ministry of Commerce of the People’s Republic of China, cities such as Chengdu, Chongqing, Guangxi, Guangzhou, Yangzhou, and Harbin have hosted various activities throughout the 2024 Consumption-Promoting Year. Additionally, in August 2024, the State Council of the People’s Republic of China issued the “Opinions on Promoting High-Quality Development of Service Consumption” (關於促進服務消費高質量發展的意見), which provides a comprehensive framework for advancing service consumption. It outlines 20 key tasks across six areas: tapping into the potential of basic consumption, stimulating improved consumption, nurturing new types of consumption, enhancing service consumption momentum, optimizing the service consumption environment, and strengthening policy support. These initiatives aim to foster the high-quality development of critical service sectors, including dining, accommodation, domestic services, and elder care. However, in the face of the complex and volatile external environment, the weak momentum of the global economic growth, the frequently-occurred geopolitical conflicts, the international trade frictions and other issues, there are still a lot of uncertainties in the second half of 2024 and 2025 which may constrain the development of the industry.

As discussed under the section headed “1.2 Financial information of the Group” above, the total revenue of the Group has shown some growth during the three years ended 31 December 2023 and 1H2024, and the net profits of the Group have also remained relatively stable, with approximately RMB473.5 million recorded in FY2021, approximately RMB484.7 million recorded in FY2022, and approximately RMB485.5 million recorded in FY2023. For 1H2024, the Group achieved a total revenue of approximately RMB5,547.5 million as compared to that of approximately RMB5,293.6 million in 1H2023. However, future business development and prospects of the Group are still subject to uncertainties associated with macroeconomic environment and factors surrounding, including but not limited to, (i) the economic outlook in the PRC amid various ongoing regional geopolitical and trade conflicts, affecting the overall business and commercial sentiment as well as consumer spending confidence domestically and globally, potentially hindering the Group’s ability to secure new contracts and maintain existing customer relationships, thereby limiting revenue growth; and (ii) the current high interest rates environment which would increase the borrowing costs for the Group for its working capital needs and that whether and when the lowering of interest rates would materialise, affecting the Group’s financial flexibility and capacity to invest in growth initiatives, potentially limiting its competitive edge in the market. As such, we are of the view that the outlook for the Group would still be challenging and be highly dependent on its ability in, amongst others, responding and adapting to changes in the uncertain regional and global economic conditions.



4. Intentions of Huarui with regard to the Group

As stated in the letter from CSCI of the Huarui Offer Document, upon completion of the Huarui Offer, the Company will become a subsidiary of Huarui Parent which is listed on the Shenzhen Stock Exchange. It is the intention of Huarui to explore synergistic effect between the Huarui Group and the Group through standardization and consolidation of the systems and management between Huarui Parent and the Group. It is disclosed in the letter from CSCI that, through the Huarui Offer, Huarui Parent and the Company can leverage their respective resources and advantages to jointly explore the market, cultivate domestic and overseas operations and production bases, thereby further expanding the global industrial chain, value chain and logistics chain, further enhancing the domestic and international market influence of Huarui Parent, and contributing to the creation of a national brand in metal packaging. Huarui Parent will also further consolidate its main business of two-piece cans, three-piece beverage and milk powder cans, and further enrich its domestic product lines of steel barrels, aerosol cans, and plastic packaging cultivating new profit growth points. In addition, it is further disclosed in the letter from CSCI that Huarui Parent will achieve complementary advantages with the Company in multiple dimensions such as technology, marketing, production capacity, and supply chain, serving customers with different needs with differentiated positioning, thereby further expanding strategic customers, reducing dependence on single customers, and promoting sustainable development.

Although it is the intention of Huarui to explore possible synergistic effect, the Shareholders should note the risk which has been disclosed in the MAR Report and the letter from CSCI that, including but not limited to, there will be a certain degree of uncertainty as to whether the Huarui Group and the Group could successfully exert synergy after the completion of the Huarui Offer given there are a large amount of assets involved in the material assets restructuring and the intense competition in the metal packaging market. As disclosed in the letter from CSCI, in order to maximise the synergies of the Huarui Offer, from the perspective of the Huarui Parent's operation and resources allocation, Huarui Parent and the Company still need to carry out further integration in terms of financial management, resource management, business expansion, corporate culture, etc., which has put forward higher requirements on Huarui Parent's operation and management capabilities. If there is a loss of management personnel of the Company in the future and Huarui Parent is unable to establish a management team for the management of the Company, it may not be possible to smoothly integrate the Company into the overall business system, therefore, there is a risk that the integration plan of the Huarui Offer may not be successfully implemented or the effect of the integration may not be achieved as expected. Shareholders and potential investors are reminded to pay attention to such risk. Shareholders are advised to read carefully the full information as regard the intentions of Huarui towards the Group as disclosed in the letter from CSCI and the MAR Report.

As at the Latest Practicable Date, Huarui has no intention to discontinue the employment of any employees of the Group other than staff movements in the ordinary and usual course of business. As stated in the letter from CSCI, Huarui will continue to consider how to develop the Group in a manner which best enhances efficiency and shareholder value and, in that regard, will consider reviewing and optimising its assets structure which will be dependent on a number of factors including market conditions, legal and regulatory requirements and its business needs.



If Huarui acquires not less than 90% of the Huarui Offer Shares (as required by Section 693 of the Companies Ordinance) and not less than 90% of the Disinterested Shares within the Compulsory Acquisition Entitlement Period, Huarui intends to privatise the Company by exercising the compulsory acquisition rights to which it is entitled under Subdivision 2 of Division 4 of Part 13 of the Companies Ordinance to acquire the remaining Shares not acquired by Huarui under the Huarui Offer. On completion of the compulsory acquisition process (if the compulsory acquisition right is exercised), the Company will be held as to 100% by Huarui and Huarui Concert Parties and an application will be made for the withdrawal of the listing of the Shares from the Stock Exchange in accordance Rule 6.15(1) of the Listing Rules.

Whilst it is the intention of Huarui to privatise the Company, Huarui's ability to exercise rights of compulsory acquisition in respect of the Huarui Offer Shares is dependent on the level of acceptance of the Huarui Offer and acquisitions reaching the prescribed level under Subdivision 2 of Division 4 of Part 13 of the Companies Ordinance and on the requirements of Rule 2.11 of the Takeovers Code being satisfied. If the Huarui Offer Shares validly tendered for acceptance under the Huarui Offer and otherwise acquired are less than 90% of the Huarui Offer Shares or less than 90% of the Disinterested Shares within the Compulsory Acquisition Entitlement Period, the Shares will remain listed on the Main Board of the Stock Exchange.

Due to successive on-market acquisitions by one of the Shareholders, Mr. Zhang Wei, the public float of the Company has fallen below the minimum prescribed percentage of 25% as required by Rule 8.08 of the Listing Rules since 19 October 2021. As at the Latest Practicable Date, the public float of the Company is approximately 23.02%.

As described above, Huarui proposes to take private the Company, subject to the satisfaction of the requirements as set out above for the withdrawal of listing. In the event that the withdrawal of listing fails and the public float of the Company remains to fall below 25% following the close of the Huarui Offer, the directors of the Huarui and the new directors to be appointed to the Board will jointly and severally undertake to the Stock Exchange to take appropriate steps to ensure that a sufficient public float exists for the Shares following the close of the Huarui Offer.

In the event Huarui exercises its power of compulsory acquisition, further announcements will be published by the Company in accordance with the Listing Rules, amongst other things, the expected date that the trading of the Company's shares will be suspended.

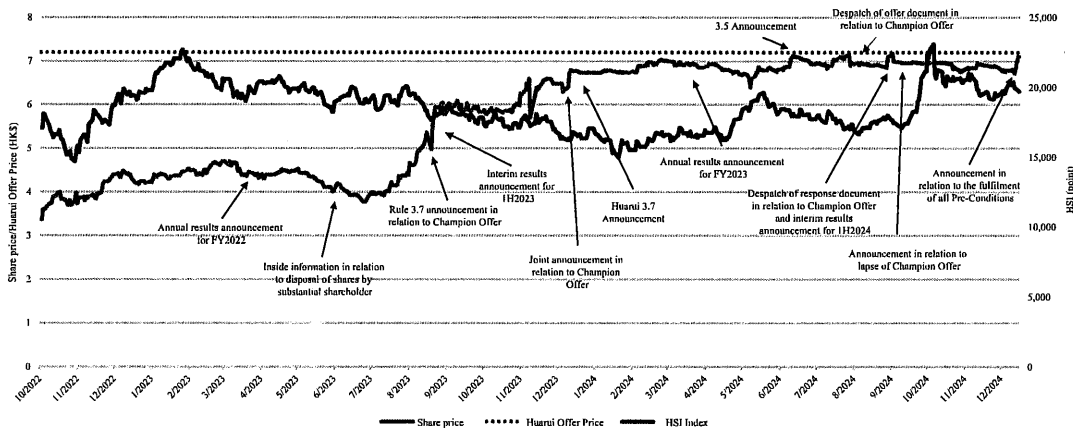
If, upon closing of the Huarui Offer, less than 25% of the issued Shares (excluding treasury shares), being the minimum public float applicable to the Company, are held by the public, or if the Stock Exchange believes that (i) a false market exists or may exist in the trading of the Shares or (ii) there are insufficient Shares in the public hands to maintain an orderly market, the Stock Exchange will consider exercising its discretion to suspend trading in the Shares.



5. Analysis of price performance and trading liquidity

5.1 Price performance of the Shares

Set out below is the movement of the closing prices of the Shares during the period from 3 October 2022 to the Latest Practicable Date (the “**Review Period**”), and the announcements of the Company relating to certain corporate events that took place during the Review Period. We consider the Review Period, which covers a period of more than 24 months, represents a sufficient period of time to provide a general overview on the recent market performance of the Shares for the purpose of this analysis.



Source: Bloomberg and the Stock Exchange

The closing prices of the Shares ranged from HK\$3.37 to HK\$7.04 per Share during the period between 3 October 2022 and 7 June 2024, being the Last Trading Date (both dates inclusive, the “**Pre-announcement Period**”), with an average closing price of around HK\$5.35 per Share. The closing prices of the Shares were below the Huarui Offer Price of HK\$7.21 for the entire Pre-announcement Period.

For the period between 3 October 2022 and 11 December 2023, being the last trading date prior to the publication of the Huarui 3.7 Announcement (both dates inclusive, the “**Pre-3.7 Announcement Period**”), the closing price per Share ranged from HK\$3.37 to HK\$6.60 per Share with an average of around HK\$4.74 per Share.

As shown in the chart above, we note that Share demonstrated a gradual upward trend in the period from October 2022 to March 2023 with fluctuations ranged from HK\$3.37 per Share to HK\$4.70 per Share. During such period, we note that the Company published its annual results announcement of the Company for FY2022 and its Share closing prices decreased slightly by approximately 0.91% from HK\$4.40 per Share on 20 March 2023 to HK\$4.36 per Share on 21 March 2023.



From April 2023 to May 2023, the Share closing prices fluctuated within a tight range of HK\$4.08 per Share to HK\$4.53 per Share. On 2 June 2023 (after trading hours), the Company published an inside information announcement in relation to a possible disposal of Shares by COFCO, a substantial shareholder of the Company. The Share closing prices increased by approximately 3.70% to HK\$4.20 on 5 June 2023 following the aforesaid announcement. Since then and up to 16 August 2023, being the trading date immediately prior to the date of the publication of the announcement pursuant to Rule 3.7 of the Takeovers Code in relation to the Champion Offer (“**Champion 3.7 Announcement**”), the Share closing prices led a remarkable upward trend and reached HK\$5.20 per Share on 16 August 2023. In this regard, we have discussed with management of the Group and they are not aware of any particular reasons that led to the upward trend of the Share closing prices during such period. Shareholders should note that, during the period between 3 October 2022 and 16 August 2023 being the full trading day prior to the publication of the Champion 3.7 Announcement (the “**Undisturbed Period**”), the closing price per Share ranged from HK\$3.37 to HK\$5.20 per Share with an average of around HK\$4.26 per Share.

On 17 August 2023, the Company published the Champion 3.7 Announcement at noon and the Share price has reacted positively and closed at HK\$5.36 on the same day, representing an increase of around 3.08% from the closing price of HK\$5.20 on 16 August 2023. Since then the Share closing price led an overall upward trend to reach HK\$6.09 per Share on 11 September 2023. During such period, we noted that the Share closing prices increased significantly from HK\$4.98 per Share on 21 August 2023 to HK\$5.56 per Share on 22 August 2023. We have discussed with management of the Group and save for the publication of the interim results announcement for 1H2023 on 22 August 2023, they are not aware of other particular reason that led to the significant fluctuation of the Share closing prices during such period.

Share closing prices fluctuated within a tight range between HK\$5.78 and HK\$6.09 per Share during September and October 2023. Since late October 2023, save for the sudden drop in the closing price per Share from HK\$6.60 on 9 November 2023 to HK\$5.70 on 10 November 2023 for which the Company are not aware of any particular reason for the drop, the closing price per Share led another increasing trend from HK\$5.82 per Share on 26 October 2023 to reach HK\$6.60 per Share on 23 and 24 November 2023. Share closing price then slightly went down and closed at HK\$6.48 per Share on 29 November 2023, being the last trading day immediately prior to the publication of announcement pursuant to Rule 3.5 of the Takeovers Code in relation to the Champion Offer (“**Champion 3.5 Announcement**”). Trading in the Shares was suspended from 30 November 2023 pending the release of the Champion 3.5 Announcement. Following the publication of the Champion 3.5 Announcement after trading hours on 6 December 2023, the Share closing prices decreased to HK\$6.30 per Share on 7 December 2023, down by around 2.78%.

On 12 December 2023 (before trading hours), the Company published the Huarui 3.7 Announcement which stated that ORG Development (an indirectly wholly-owned subsidiary of Huarui Parent) has interest in pursuing a possible voluntary conditional to acquire the Shares (other than those already owned by or to be acquired by it and parties acting in concert with it), the Share closing prices increased by around 4.68% to reach HK\$6.71 per Share on the same day.



Since then, the Shares have traded from time to time above the offer price of HK\$6.87 under the Champion Offer and Share closing price fluctuated in a range between HK\$6.40 and HK\$7.04 from 13 December 2023 to 7 June 2024. On 20 March 2024, the Company published its annual results announcement for FY2023 and there was no material fluctuation on the Share price. On 7 June 2024 (after trading hour), the Company and Huarui jointly published the 3.5 Announcement and the Share closing prices remained the same on the next trading day and closed at HK\$6.87 per Share on 10 June 2024. From 11 June 2024 to 15 July 2024, the closing price of the Shares fluctuated between the range of HK\$6.83 to HK\$7.13 per Share. From 16 July 2024 to 29 July 2024, the closing price of the Share fluctuated between a range of HK\$7.03 to HK\$7.13 per Share. On 30 July 2024 (before trading hour), the offer document in relation to the Champion Offer has been despatched and the Share price closed at HK\$6.9 per Share on 30 July 2024, representing a decrease of approximately 3.09% from the closing price of HK\$7.12 per Share on the prior day. During the period from 31 July 2024 to 3 September 2024, the closing price of the Shares fluctuated between HK\$6.85 to HK\$7.18 per Share. During such period, the Company published the response document in relation to the Champion Offer on 13 August 2024 (before trading hours) and its Share closing prices decreased slightly by approximately 0.29% from HK\$6.93 per Share on 12 August 2024 to HK\$6.91 per Share on 13 August 2024. On 3 September 2024 (after trading hour), the Company published the announcement in relation to, among others, the lapse of the Champion Offer. The Share price decreased by approximately 2.65% and closed at HK\$6.99 per Share on 4 September 2024.

Since then, the closing price of the Share fluctuated between the range of HK\$6.72 to HK\$6.99 per Share from 5 September 2024 to 13 December 2024.

On 13 December 2024, after trading hours, Huarui and the Company jointly announced that the Pre-Conditions had been satisfied and the Share closing price increased from HK\$6.72 on 13 December 2024 to HK\$7.11 per Share on 16 December 2024, being the next trading day. The Share closing price as at Latest Practicable Date was HK\$7.11.

The Huarui Offer Price of HK\$7.21 per Share represents:

- (a) a premium approximately 1.4% over the closing price as quoted on the Stock Exchange on the Latest Practicable Date of HK\$7.11 per Share;
- (b) a premium of approximately 38.7% over the closing price of HK\$5.20 per Share as quoted on the Stock Exchange on 16 August 2023, the last trading day prior to the publication of the Champion 3.7 Announcement, being the commencement of the Offer Period;
- (c) a premium of approximately 42.8% over the average closing price of approximately HK\$5.05 per Share as quoted on the Stock Exchange for the five consecutive trading days up to and including the last trading day prior to the publication of the Champion 3.7 Announcement;
- (d) a premium of approximately 48.0% over the average closing price of approximately HK\$4.87 per Share as quoted on the Stock Exchange for the 10 consecutive trading days up to and including the last trading day prior to the publication of the Champion 3.7 Announcement;



- (e) a premium of approximately 64.2% over the average closing price of approximately HK\$4.39 per Share as quoted on the Stock Exchange for the 30 consecutive trading days up to and including the last trading day prior to the publication of the Champion 3.7 Announcement;
- (f) a premium of approximately 71.7% over the average closing price of approximately HK\$4.20 per Share as quoted on the Stock Exchange for the 60 consecutive trading days up to and including the last trading day prior to the publication of the Champion 3.7 Announcement;
- (g) a premium of approximately 12.5% over the closing price of HK\$6.41 per Share as quoted on the Stock Exchange on the last trading day prior to the publication of the Huarui 3.7 Announcement;
- (h) a premium of approximately 4.9% over the closing price of HK\$6.87 per Share as quoted on the Stock Exchange on the Last Trading Date;
- (i) a premium of approximately 6.8% over the average closing price of approximately HK\$6.75 per Share, being the average closing price of the Shares as quoted on the Stock Exchange for the 30 trading days immediately prior to and including the Last Trading Date;
- (j) a premium of approximately 5.7% over the average closing price of approximately HK\$6.82 per Share, being the average closing price of the Shares as quoted on the Stock Exchange for the 60 trading days immediately prior to and including the Last Trading Date;
- (k) a premium of approximately 5.8% over the average closing price of approximately HK\$6.81 per Share, being the average closing price of the Shares as quoted on the Stock Exchange for the 120 trading days immediately prior to and including the Last Trading Date;
- (l) a premium of approximately 31.0% over the consolidated net asset value attributable to owners of the Company per Share of approximately RMB4.99 (equivalent to approximately HK\$5.51) as at 31 December 2023, calculated based on (i) the Group's consolidated net assets attributable to owners of the Company of approximately RMB 5,555,226,000 as at 31 December 2023 as disclosed in the annual report of the Company published on 18 April 2024; (ii) 1,113,423,000 Shares in issue as at the Latest Practicable Date; 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; and
- (m) a premium of approximately 26.7% over the consolidated net asset value attributable to owners of the Company per Share of approximately RMB5.20 (equivalent to approximately HK\$5.69) as at 30 June 2024, calculated based on (i) the Group's unaudited consolidated net assets attributable to owners of the Company of approximately RMB 5,784,667,000 as at 30 June 2024 as disclosed in the interim report of the Company published on 19 August 2024; (ii) 1,113,423,000 Shares in issue as at the Latest Practicable Date; 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.



Shareholders should note that the Share price movement following the publication of the Champion 3.7 Announcement, Champion 3.5 Announcement, Huarui 3.7 Announcement and the 3.5 Announcement are likely to be driven by the Champion Offer (which was lapsed on 3 September 2024) and the Huarui Offer and as such, the sustainability of the current Share price level could be uncertain if the Huarui Offer fails to become unconditional.

5.2 Trading Liquidity

Set out below in the table are the average daily trading volume of the Shares and the percentages of the average daily trading volume to the number of total issued Shares and public float of the Company respectively during the Review Period:

	Average daily trading volume of the Shares	Approximate % of average daily trading volume to the number of total issued Shares (Note 1)	Approximate % of average daily trading volume to the public float of the Company (Note 2)
2022			
October	715,800	0.06%	0.30%
November	648,735	0.06%	0.27%
December	247,549	0.02%	0.10%
2023			
January	195,126	0.02%	0.08%
February	141,488	0.01%	0.06%
March	197,087	0.02%	0.08%
April	203,941	0.02%	0.08%
May	304,286	0.03%	0.13%
June	300,490	0.03%	0.12%
July	119,650	0.01%	0.05%
1 August – 16 August (i.e. the last trading day prior to the publication of Champion 3.7 Announcement)	1,369,475	0.12%	0.59%
During the Undisturbed Period (i.e. from 3 October 2022 to 16 August 2023)	371,066	0.03% (Note 3)	0.15% (Note 3)
17 August – 31 August	1,558,455	0.14%	0.67%
September	510,619	0.05%	0.22%
October	334,700	0.03%	0.14%



	Average daily trading volume of the Shares	Approximate % of average daily trading volume to the total number of issued Shares <i>(Note 1)</i>	Approximate % of average daily trading volume to the public float of the Company <i>(Note 2)</i>
1 November – 29 November (i.e. the last trading day prior to the publication of the Champion 3.5 Announcement)	954,642	0.09%	0.41%
From 7 December 2023 (i.e. the first trading day following the publication of the Champion 3.5 Announcement) – 11 December 2023 (i.e. the last trading day prior to the publication of Huarui 3.7 Announcement)	8,100,667	0.73% <i>(Note 3)</i>	3.35% <i>(Note 3)</i>
During the Pre-3.7 Announcement Period (i.e. 3 October 2022 to 11 December 2023)	536,848	0.05% <i>(Note 3)</i>	0.23% <i>(Note 3)</i>
From 12 December 2023 (i.e. the first trading day following the publication of the Huarui 3.7 Announcement) to 29 December 2023	2,764,042	0.25% <i>(Note 3)</i>	1.14% <i>(Note 3)</i>
2024			
January	1,137,690	0.10%	0.47%
February	603,684	0.05%	0.25%
March	610,850	0.05%	0.25%
April	567,466	0.05%	0.23%
May	833,306	0.07%	0.33%
From 3 June 2024 to 7 June 2024 (i.e. the Last Trading Date)	447,600	0.04% <i>(Note 3)</i>	0.17% <i>(Note 3)</i>



	Average daily trading volume of the Shares	Approximate % of average daily trading volume to the number of total issued Shares <i>(Note 1)</i>	Approximate % of average daily trading volume to the public float of the Company <i>(Note 2)</i>
From 11 June 2024 (i.e. the first trading day following the publication of the 3.5 Announcement) to the Latest Practicable Date	1,137,450	0.10% <i>(Note 3)</i>	0.44% <i>(Note 3)</i>

Source: the Stock Exchange

Notes:

1. The calculation is based on the average daily trading volume of the Shares for the respective month over the number of total issued Shares for the same month.
2. The total number of Shares held by the public for the respective month is based on the announcements published by the Company in relation to the update of the status of the public float for each month.
3. Approximate % of average daily trading volume to the number of total issued Shares for the said period is based on the average daily trading volume over the said period and the average of month end total issued Shares for the relevant months. Approximate % of average daily trading volume to the public float of the Company is based on the average daily trading volume over the said period and the average of month end total number of Shares held by the public (calculation is set out under note 2 above).



From the table above, which sets out the average daily trading volume as a percentage of the number of total issued Shares and as a percentage of the public float respectively, we note that the average daily trading volume of the Shares has been relatively thin. The average daily trading volume of the Shares during the Undisturbed Period from 3 October 2022 to 16 August 2023 (i.e. the last trading day prior to the publication of Champion 3.7 Announcement) was 371,066 Shares, representing only around 0.03% of the total issued share capital of the Company and around 0.15% of the public float. We have discussed with management of the Group regarding the increase in average daily trading volume from 1 August 2023 to 16 August 2023 and were advised that, save for the publication of the inside information announcement in relation to the possible disposal of Shares by a substantial shareholder of the Company on 2 June 2023, they are not aware of other particular reason that possibly led to the increase in average daily trading volume of the Shares.

The publication of the Champion 3.7 Announcement in August 2023 heightened the trading volume and to an average of approximately 1,558,455 Shares for the remaining trading days in August 2023, representing around 0.14% of total issued share capital of the Company, and around 0.67% of total public float in August, though the trading volume of the Company was comparatively less active in September and October 2023. After the publication of the Champion 3.5 Announcement, the daily trading volume of the Shares increased significantly to an average of 8,100,667 Shares, representing around 0.73% of the total volume of issued Shares and around 3.35% of total public float, during the period from 7 December 2023 to 11 December 2023, being the last trading day prior to the publication of the Huarui 3.7 Announcement.

After the publication of the Huarui 3.7 Announcement, the average daily trading volume of the Shares, during the period from 12 December 2023 to 31 December 2023, decreased to 2,764,042 Shares, representing around 0.25% of the total volume of issued Shares and around 1.14% of total public float, and the average daily trading volume of the Shares further decreased to 1,137,690 Shares in January 2024, representing around 0.10% of the total issued share capital of the Company and around 0.47% of the total public float. The average daily trading volume of the Shares from February 2024 to 7 June 2024, being the last trading day prior to the publication of 3.5 Announcement, ranged from 447,600 Shares (representing around 0.04% of the total volume of issued shares and around 0.17% of total public float) to 833,306 Shares (representing around 0.07% of the total volume of issued Shares and 0.33% of total public float). After the publication of the 3.5 Announcement, the average daily trading volume of the Shares increased to 1,137,450 Shares, representing around 0.10% of the total volume of issued Shares and around 0.44% of total public float during the period from 11 June 2024 (being the first trading day immediately after the publication of the 3.5 Announcement) to the Latest Practicable Date.

Disinterested Shareholders should note that the public float of the Company has fallen below the minimum prescribed percentage of 25% as required by Rule 8.08 of the Listing Rules since 19 October 2021. The minimum public float requirement of 25% has not been satisfied for over two years. As at the Latest Practicable date, the public float of the Company is approximately 23.02%. Given the historically thin trading volume of the Shares and the public float is below minimum requirement of 25%, it is uncertain whether there would be sufficient liquidity in the Shares for the Disinterested Shareholders to dispose of a significant number of Shares in the open market without causing an adverse impact on the market price of the Shares. The Huarui Offer therefore represents an opportunity for the Disinterested Shareholders, particularly for those who hold a large volume of Shares, to dispose of their holdings at the Huarui Offer Price if they so wish, provided the Huarui Offer becomes unconditional.



6. Comparable analysis

As discussed in the section headed “1.2 Financial information of the Group” above, the Group is principally engaged in the manufacturing and sales of packaging products for consumer goods such as food, beverages and household chemical products in the PRC. In order to evaluate the fairness and reasonableness of the Huarui Offer Price, we have conducted a comparable company analysis based on the following criteria to include companies that (i) are listed on the Main Board of the Stock Exchange; (ii) are principally engaged in the manufacturing and sales of packaging products with at least 50% of their respective total revenue contributed from such business segment in their latest financial year/trailing twelve-months period; and (iii) recorded a net profit attributable to owners of the company for their latest financial year/trailing twelve-months period results.

Based on the aforementioned criteria, we identified an exhaustive list of 9 listed companies on the Main Board of the Stock Exchange which are engaged in the manufacturing and sales of packaging products business (the “**Comparable Company(ies)**”). Based on information publicly available, we note that the packaging products of the Comparable Companies serves a wide spectrum of industries including but not limited to, consumer products industry, pharmaceutical industry and chemical products industry. Although the packaging products manufactured by the Comparable Companies and the Company may not be exactly the same, they are all engaged in similar business activities, being the manufacturing and sales of packaging products. Given (i) the similarity in business nature of the Comparable Companies and the Company; and (ii) the sufficient number of Comparable Companies identified, we consider the list of Comparable Companies to be fair and representative.

We have selected the use of price-to-earnings ratio (the “**P/E Ratio**”), price-to-book ratio (the “**P/B Ratio**”) and dividend yield for the purpose of the comparable company analysis because we consider such ratios to be suitable valuation methodologies as they are common financial analysis tools used to evaluate companies with a proven track record.

Set out in the table below are the details of the Comparable Companies and their P/E Ratios, P/B Ratios and dividend yield:

Company name	Stock Code	Principal business	Market Capitalisation HK\$' million	P/E Ratio times (Note 1)	P/B Ratio times (Note 2)	Dividend yield % (Note 3)
Nine Dragons Paper (Holdings) Limited	2689.HK	Manufacture and sales of packaging paper, printing and writing paper, high value specialty paper products and pulp	16,000.5	18.8	0.3	Nil
Lee & Man Paper Manufacturing Limited (“L&M”)	2314.HK	Manufacture and sales of paper, and manufacture and sales of pulp	10,093.3	6.3	0.4	5.2



Company name	Stock Code	Principal business	Market Capitalisation <i>HK\$' million</i>	P/E Ratio <i>times</i> <i>(Note 1)</i>	P/B Ratio <i>times</i> <i>(Note 2)</i>	Dividend yield <i>%</i> <i>(Note 3)</i>
Greatview Aseptic Packaging Company Limited (“GAP”)	468.HK	Manufacturing, distribution and selling of paper packaging and filling machines to dairy and non-carbonated soft drink producers	2,955.0 <i>(Note 5)</i>	10.3	0.9	4.8
Pacific Millennium Packaging Group Corporation (“Pacific Millennium”)	1820.HK	Manufacture and sale of packaging materials	1,863.9	497.2	3.1	2.6
Hung Hing Printing Group Limited	450.HK	Book and package printing; consumer product packaging; corrugated box; and trading of paper	889.7	18.4	0.3	13.3
China Aluminum Cans Holdings Limited	6898.HK	Manufacture and sale of aluminum aerosol cans	554.9	27.1	2.1	1.2
Southeast Asia Properties & Finance Limited	252.HK	Property investment, development and leasing, hotel operation, manufacturing and distribution of plastic packaging materials and securities broking and margin financing	383.2	22.7	0.3	1.8
Zhengye International Holdings Company Limited	3363.HK	Manufacture and sales of packaging paper and paper-based packaging products	200.0	13.9	0.2	2.8
Starlite Holdings Limited	403.HK	Printing and manufacturing of packaging materials, labels and paper products, including environmental friendly paper products	96.6	5.4	0.1	13.0



Company name	Stock Code	Principal business	Market Capitalisation HK\$' million	P/E Ratio times (Note 1)	P/B Ratio times (Note 2)	Dividend yield % (Note 3)	
				Minimum	5.4	0.1	Nil
				Maximum	497.2	3.1	13.3
				Median	18.4	0.3	2.8
				Average	68.9	0.8	4.9
Excluding Pacific Millennium's P/E Ratio as an outlier (Note 6)							
				Median	16.2		
				Average	15.4		
The Company (based on the Huarui Offer Price)			8,027.8	15.5 (Note 4)	1.3 (Note 4)	1.8	

Source: the Stock Exchange and Bloomberg

Notes:

1. P/E Ratios of the Comparable Companies were calculated based on the disclosed profit attributable to owners of the company for the latest financial year/trailing twelve months period of the respective Comparable Company and the respective Comparable Company's market capitalisation as at the Latest Practicable Date.
2. P/B Ratios of the Comparable Companies were calculated based on the respective net asset value attributable to owners of the company as published in their respective latest financial report/results and the respective Comparable Company's market capitalisation as at the Latest Practicable Date.
3. Dividend yield of the Comparable Companies and the Company are calculated based on the latest interim/special and final dividends (if any) as published in their respective announcements and/or financial reports.
4. The implied P/E Ratio and P/B Ratio of the Company as represented by the Huarui Offer Price were calculated based on the profit attributable to equity holders of the Company for the trailing twelve months period ended 30 June 2024 and the net asset value attributable to equity holders of the Company as at 30 June 2024, respectively, as derived from/disclosed in the 2023 Annual Report and the 2024 Interim Report and the implied market capitalisation of the Company as represented by the Huarui Offer Price.
5. Based on the announcement dated 9 May 2024, a pre-conditional voluntary general offer has been made to acquire all shares of GAP. The calculation of market capitalisation for GAP above is based on the share price of GAP as at the last trading day prior to the GAP Offer (as defined below), which was 9 May 2024.
6. The P/E Ratio of Pacific Millennium of approximately 497.2 times which is extraordinarily higher than those of the other Comparable Companies and therefore, is considered an outlier for the P/E Ratio analysis.

As shown in the table above, (i) the implied P/E Ratio represented by the Huarui Offer Price is within the range of the P/E Ratio of the Comparable Companies, and is higher than the average P/E Ratio of the Comparable Companies excluding the outlier; and (ii) the implied P/B Ratio represented by the Huarui Offer Price is higher than the average and median of P/B Ratio of the Comparable Companies.



Disinterested Shareholders should also note from the table above that most of the Comparable Companies have market capitalisation substantially different from that of the Company which is around HK\$5,789.8 million as at the last trading day prior to the publication of the Champion 3.7 Announcement. As such, on a closer examination of the Comparable Companies with market capitalisation of around HK\$2 billion to HK\$10 billion (being at least half and double of the market capitalisation of the Company as at the last trading day prior to the publication of the Champion 3.7 Announcement), which are considered more relevant and comparable with respect to their size and market capitalisation, being L&M and GAP, we note that the implied P/E Ratio and the implied P/B ratio represented by the Huarui Offer Price are both higher than the P/E Ratio and P/B Ratio of L&M and GAP.

In particular, attention is also drawn to the Disinterested Shareholders that one of the Comparable Companies namely GAP is currently subject to a pre-conditional voluntary general offer (the “GAP Offer”) at an offer price of HK\$2.65 per share of GAP (the “GAP Offer Price”) in cash, and based on the latest announcement dated 11 December 2024 made by the offeror of the GAP Offer, certain pre-conditions of the GAP Offer have yet to be fulfilled. We noted that the P/E Ratio and the P/B Ratio of GAP would be around 13.0 times and 1.1 times respectively based on the GAP Offer Price. As such, the implied P/E Ratio and the P/B Ratio represented by the Huarui Offer Price are both higher than the respective ratios under the GAP Offer. Huarui Offer Price is also around 4.9% higher than the offer price of HK\$6.87 under the Champion Offer which was recently launched on 30 July 2024 and lapsed on 3 September 2024.

As shown in the table above, the implied dividend yield of the Company based on the Huarui Offer Price is lower than the average and median of the dividend yield of the Comparable Companies, which indicates a lower investment return based on the dividend yield relative to the Huarui Offer Price, while at the same time, it also reflects the fact that the Huarui Offer Price relative to dividend is favourable in this respect.

Based on the above analysis, we consider the Huarui Offer Price reasonable as compared to the Comparable Companies.

DISCUSSION

We consider that of the Huarui Offer, including the Huarui Offer Price, to be fair and reasonable so far as the Disinterested Shareholders are concerned after taking into account all of the above principal factors and reasons, in particular:

1. as discussed in the section headed “3. Prospects of the Group”, although the Group’s net profit remained relatively stable for the past three financial years and 1H2024, it is expected that the outlook of the Group would still be challenging and be highly dependent on its ability in, amongst others, costs management and responding to the uncertain regional and global economic conditions;



2. the Huarui Offer Price is higher than the Share closing price(s) (i) during the entire Undisturbed Period and represents a premium of approximately 69.2% over the average closing price for the Undisturbed Period of HK\$4.26 per Share; (ii) during the entire Pre-announcement Period, and represents a premium of approximately 34.8% over the average closing price for the Pre-announcement Period of HK\$5.35 per Share; and (iii) represents a premium of approximately 1.4% over the Share closing prices as at Latest Practicable Date;
3. the Huarui Offer Price represents a premium of approximately 26.7% over the unaudited consolidated net asset value of approximately RMB5.20 per Share (equivalent to approximately HK\$5.69 per Share as at 30 June 2024 based on the number of Shares in issue as at the Latest Practicable Date;
4. the historical trading volume of the Shares has been thin during the Review Period and the Disinterested Shareholders may find it difficult to dispose of a significant number of Shares in the open market without causing an adverse impact on the market price of the Shares. The Huarui Offer therefore represents an opportunity for the Disinterested Shareholders, particularly for those who hold a large volume of Shares, to dispose of their holdings at the Huarui Offer Price if they so wish, assuming the Huarui Offer becomes unconditional; and
5. the implied P/E Ratio represented by the Huarui Offer Price is within the range of the P/E Ratio of the Comparable Companies, and is higher than the average P/E Ratio of the Comparable Companies excluding the outlier; and the implied P/B Ratio represented by the Huarui Offer Price is higher than the average and median of P/B Ratio of the Comparable Companies.

OPINION AND RECOMMENDATIONS

Having taken into account the above principal factors set out in this letter and summarised in the section headed “Discussion” above, we consider that the Huarui Offer are fair and reasonable so far as the Disinterested Shareholders are concerned and, accordingly, we advise the Independent Board Committee to recommend the Disinterested Shareholders to accept the Huarui Offer.

Though the Shares have traded in the market below the Huarui Offer Price since 3 October 2022 up to the Latest Practicable Date when they closed at HK\$7.11, there is still a possibility that the Share price may exceed the Huarui Offer Price in the period before the Huarui Offer closes. Disinterested Shareholders who intend to realise their investments in the Company in whole or in part by accepting the Huarui Offer should monitor the Share price, and if the proceeds of selling in the market (net of costs) would be higher than the net proceeds receivable under the Huarui Offer, such Disinterested Shareholders should, having regard to their own circumstances, consider selling their Shares in the open market instead of realising their investment by accepting the Huarui Offer. Disinterested Shareholders should also monitor the overall trading volume of the Shares, as they may or may not be able to dispose of their Shares in the market without exerting downward pressure on the Share prices.



The procedures for acceptance of the Huarui Offer are set out in Appendix I to the Huarui Offer Document and the accompanying Form of Acceptance. Disinterested Shareholders are urged to read the timetable set out in the Huarui Offer Document and any revised timetable (if any) to be announced by Huarui or the Company carefully and act accordingly if they wish to accept the Huarui Offer.

Yours faithfully,
for and on behalf of
SOMERLEY CAPITAL LIMITED

Lyan Tam
Director

Calvin Leung
Director

Ms. Lyan Tam is a licensed person registered with the SFC and as a responsible officer of Somerley Capital Limited to carry out Type 6 (advising on corporate finance) regulated activities under the SFO and has over 20 years of experience in corporate finance industry.

Mr. Calvin Leung is a licensed person registered with the SFC and a responsible officer of Somerley Capital Limited, which is licensed under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities. He has over 20 years of experience in the corporate finance industry.