



SOMERLEY CAPITAL LIMITED

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13 August 2024

To: The Independent Board Committee and the Independent Shareholders

Dear Sirs,

**CONDITIONAL VOLUNTARY GENERAL CASH OFFER BY
SHENWAN HONGYUAN CAPITAL (H.K.) LIMITED
ON BEHALF OF CHAMPION HOLDING (BVI) CO., LTD TO ACQUIRE
ALL THE ISSUED SHARES OF CPMC HOLDINGS LIMITED
(OTHER THAN THOSE ALREADY OWNED OR AGREED
TO BE ACQUIRED BY THE OFFEROR
OR PARTIES ACTING IN CONCERT WITH IT)**

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in connection with the Offer. The terms of the Offer are set out in the response document dated 13 August 2024 (the “**Response Document**”), of which this letter forms a part. Terms used in this letter shall have the same meaning as those defined in the Response Document unless the context requires otherwise.

On 6 December 2023, the Offeror and the Company jointly announced that Shenwan Hongyuan, on behalf of the Offeror, would make a preconditional voluntary general cash offer to acquire all of the Shares with the intention to take private the Company, which included disclosure of the Irrevocable Undertaking as detailed below, covering approximately 29.70% of the issued Shares as at the Latest Practicable Date. On 15 July 2024, the Offeror announced that all pre-conditions of the Offer as set out in the Joint Announcement had been satisfied. The Offer is conditional on, among others, valid acceptances of the Offer having been received at or before 4:00 p.m. on the First Closing Date in respect of the Shares which, together with the Shares acquired or agreed to be acquired before or during the Offer, will result in the Offeror and parties acting in concert with it holding more than 50% of all the Shares then in issue (the “**50% Acceptance Condition**”). The Offer Document has been despatched and the Offer commenced on 30 July 2024.



Subject to the Offer becoming unconditional and satisfaction of the requirements under the Companies Ordinance and the Takeovers Code, if the Offeror acquires such number of Shares under the Offer represents not less than 90% of all the Shares (by virtue of the acceptances of the Offer or otherwise) and not less than 90% of all the Shares held by the Disinterested Shareholders by 4:00 p.m. on the Final Closing Date, the Offeror intends to take private the Company by exercising the compulsory acquisition rights to which it is entitled under Rule 2.11 of the Takeovers Code and Subdivision 2 of Division 4 of Part 13 of the Companies Ordinance to acquire the remaining Shares held by the Disinterested Shareholders, following which the listing of the Company on the Main Board of the Stock Exchange will be withdrawn pursuant to the Listing Rules. If the level of acceptance of the Offer reaches the prescribed level under the Companies Ordinance required for compulsory acquisition and the requirements of Rule 2.11 of the Takeovers Code are satisfied, an application will be made for the withdrawal of the listing of the Shares from the Stock Exchange pursuant to Rule 6.15(1) of the Listing Rules. To ensure an organised exit, the Directors agree that dealings in the Shares shall be suspended from the Closing Date up to the withdrawal of listing of the Shares from the Stock Exchange.

Whilst it is the intention of the Offeror to take private the Company, the Offeror's ability to exercise rights of compulsory acquisition in respect of the Shares is dependent on the level of acceptance of the Offer reaching the prescribed level under Subdivision 2 of Division 4 of Part 13 of the Companies Ordinance, which is 90% of all Shares, and on the requirements of Rule 2.11 of the Takeovers Code, which is 90% of all the Shares held by the Disinterested Shareholders, being satisfied. If the Shares validly tendered for acceptance under the Offer by 4:00 p.m. on the Final Closing Date are less than 90% of all the Shares or less than 90% of all the Shares held by the Disinterested Shareholders, the Shares will remain listed on the Main Board of the Stock Exchange.

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 Offer, the Directors will jointly and severally undertake to the Stock Exchange to take appropriate steps to use their best efforts to procure to restore sufficient public float for the Shares as soon as possible following the close of the Offer. Meanwhile as disclosed in the Offer Document, the sole director of the Offeror 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 Offer.

Independent Shareholders should note that as disclosed in the Huarui 3.5 Announcement, on 7 June 2024, Huarui notified the Company that it has a firm intention, subject to the satisfaction of the pre-conditions to Huarui Offer as set out in the Huarui 3.5 Announcement ("**Huarui Offer Pre-Conditions**"), through China Securities (International) Investment Company Limited ("**CSCI**") on behalf of Huarui, to make a voluntary conditional general cash offer to acquire all the Shares not already owned by Huarui and parties acting in concert with it at the price of HK\$7.21 per Share subject to the Huarui Offer ("**Huarui Offer Price**"). Shareholders are recommended to refer to the Huarui 3.5 Announcement for other terms and conditions of the Huarui Offer. As at the Latest Practicable Date, saved for the approval by the shareholders of ORG Technology Co., Ltd., of the loans and guarantee proposed for the financing of the Huarui Offer has been obtained on 24 June 2024, neither the Company nor Huarui has announced satisfaction of any of the remaining Huarui Offer Pre-Conditions. The Huarui Offer, if made following the satisfaction of the Huarui Offer Pre-Conditions, will constitute a competitive bid against the Offer.



As set out in the Joint Announcement, an Independent Board Committee, comprising two non-executive Directors, namely Mr. Zhou Yuan and Mr. Shen Tao, and 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 Independent Shareholders as to whether the terms of the Offer are fair and reasonable and as to the acceptance of the Offer. 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. Pursuant to the announcement of the Company dated 12 March 2024, Mr. Zhou Yuan and Mr. Shen Tao are considered as having direct or indirect interest in the Offer and the Huarui Offer and have ceased to be members of the Independent Board Committee. As such, the Independent Board Committee only comprises all independent non-executive Directors, being Mr. Cheng, Mr. Pun Tit Shan and Mr. Chen Jihua.

We are not associated or connected with the Company, or the Offeror, 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 Offer. Apart from normal professional fees payable to us in connection with this appointment and the appointment to advise the Independent Board Committee in connection with the Huarui Offer as announced by the Company on 9 July 2024, no arrangement exists whereby we will receive any fees or benefits from the Company, or the Offeror, 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 trading performance of the Shares on the Stock Exchange, (iii) the Huarui 3.5 Announcement, (iv) the announcement of the Offeror dated 15 July 2024 in relation to, among others, the updates on fulfilment of all pre-conditions of the Offer, (v) the Offer Document, and (vi) other information contained in the Response 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, the Offeror 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 Offer Document and the Response Document in which this letter forms a part were true at the time they were made and at the respective date of the Offer Document and the Response 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 Independent Shareholders of acceptance or non-acceptance of the Offer, since these depend on their individual circumstances. In particular, Independent 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 OFFER

The Offer is being made by Shenwan Hongyuan on behalf of the Offeror on the following basis:

The Offer

For each Offer Share HK\$6.87 in cash

The Offer is extended to all Shareholders in accordance with the Takeovers Code. The Offer Shares to be acquired under the Offer shall be (i) fully paid; (ii) free from all liens, equities, mortgages, charges, encumbrances, rights of pre-emption and other third party rights and interest of any nature whatsoever; and (iii) together with all rights, benefits and entitlements attached thereto (including the right to receive and retain all dividends and other distributions in form or in kind (if any) which may be announced, declared, paid or made thereon by the Company the record date of which falls on or after the date of the Offer Document). As stated in the Joint Announcement, 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 the Offer.

As at the Latest Practicable Date, the Company does not have any declared and unpaid dividend and does not have any intention to announce, declare, make or pay any future dividend, other distribution or return of capital until the close of the Offer.

Value of the Offer and confirmation of financial resources

As at the Latest Practicable Date, there were 1,113,423,000 Shares in issue. Assuming that there is no change in the issued share capital of the Company from the Latest Practicable Date up to (and including) the close of the Offer and based on the Offer Price of HK\$6.87 per Share and 1,113,423,000 Shares in issue as at the Latest Practicable Date, the maximum amount of aggregated cash consideration to be paid to the Shareholders for all Offer Shares under the Offer would be HK\$7,649,216,010.

As disclosed in the letter from Shenwan Hongyuan of the Offer Document, the Offeror intends to finance the consideration payable by the Offeror under the Offer by external financing, pursuant to which China Merchants Bank Co., Ltd. has agreed to provide a loan facility to the Offeror to pay for the total consideration under the Offer as well as costs and expenses relating to the Offer and payable by the Offeror, which facility will be secured by the security charge to be entered into between the Offeror as chargor and China Merchants Bank Co., Ltd. as chargee in respect of all the Shares to be held by the Offeror upon completion of the Offer in favour of China Merchants Bank Co., Ltd. The Offeror confirms that the payment of interest on, repayment of or security for any liability (contingent or otherwise) in relation to the aforementioned financing arrangements, will not depend, to any significant extent, on the business of the Group.



Shenwan Hongyuan, the financial adviser to the Offeror in respect of the Offer, is satisfied that sufficient financial resources are available to the Offeror for satisfying its payment obligation in respect of the cash consideration payable required for the full acceptance of the Offer.

Irrevocable Undertaking

As disclosed in the Offer Document, on 6 December 2023, China Foods and the Offeror entered into the Irrevocable Undertaking, pursuant to which, among other things, China Foods has, subject to the review and approval of the state-owned assets supervision and administration authority, unconditionally and irrevocably agreed and undertaken to accept the Offer in respect of the Sale Shares (as defined below) as soon as practicable prior to the last acceptance date of the Offer, and China Foods has undertaken not to withdraw such acceptance and to make its best efforts to seek approval from the state-owned assets supervision and administration authority for the relevant Shareholders to transfer the Sale Shares to the Offeror. The Offeror has obtained the approval from SASAC in connection with the Offer, and SASAC has also approved China Foods to transfer the Sale Shares to the Offeror. Since the pre-conditions of the Offer have been fulfilled as at the Latest Practicable Date, the Irrevocable Undertaking will only be terminated immediately upon (i) the Offer having been withdrawn, lapsed or closed, or (ii) the written consent of the Offeror and China Foods, whichever is earlier.

China Foods is a company incorporated in the British Virgin Islands, it is a wholly owned subsidiary of COFCO (Hong Kong) Limited (“**COFCO (HK)**”). China Foods and COFCO (HK) are wholly-owned subsidiaries of COFCO, which is ultimately and beneficially owned by SASAC. COFCO (HK) and COFCO are therefore deemed to be interested in the 330,658,800 Shares held by China Foods, representing approximately 29.7% of the total issued shares of the Company (“**Sales Shares**”).

Conditions of the Offer

As disclosed in the Offer Document, the Offer will be conditional upon the fulfilment or waiver (as applicable) of the following Conditions:

- (a) valid acceptances of the Offer having been received at or before 4:00 p.m. on the First Closing Date in respect of the Shares which, together with the Shares acquired or agreed to be acquired before or during the Offer, will result in the Offeror and parties acting in concert with it holding more than 50% of all the Shares then in issue. Upon the Offer becoming unconditional following the fulfilment of such condition, the Offer will remain open for acceptance until the expiry of a period of four months after the posting of the Offer Document for the purpose of allowing the Offeror to acquire further Shares to entitle it to exercise its compulsory acquisition rights as further particularised in the section headed “**POSSIBLE COMPULSORY ACQUISITION AND WITHDRAWAL FROM LISTING**” in the letter from Shenwan Hongyuan of the Offer Document. If the above condition of valid acceptances of 50% of all the Shares is not fulfilled, the Offer will lapse in accordance with the Takeovers Code;
- (b) no event having occurred which would make the Offer or the acquisition of any of the Offer Shares void, unenforceable or illegal or prohibit the implementation of the Offer or would impose any additional material conditions or obligations with respect to the Offer or any part thereof; and



- (c) no relevant government, governmental, quasi-government, statutory or regulatory body, court or agency in Hong Kong or any other jurisdictions having taken or instituted any action, proceeding, suit, investigation or enquiry (or enacted, made or proposed, and there not continuing to be outstanding, any statute, regulation, demand or order) that would make the Offer or its implementation in accordance with its terms void, unenforceable, illegal or impracticable (or which would impose any material and adverse conditions or obligations with respect to the Offer or its implementation in accordance with its terms).

Other than Condition (a), the Offeror reserves the right to waive, in whole or in part, all or any of the Conditions set out above. As at the Latest Practicable Date, Condition (a) has not been satisfied, and the Offer was still conditional.

Pursuant to Note 2 to Rule 30.1 of the Takeovers Code, the Offeror should not invoke Condition (b) or (c) so as to cause the Offer to lapse unless the circumstances which give rise to the right to invoke such Condition are of material significance to the Offeror in the context of the Offer.

In accordance with the Note to Rule 15.3 of the Takeovers Code, the Offeror must publish an announcement when the Offer becomes or is declared unconditional as to acceptances and when the Offer becomes or is declared unconditional in all respects.

The Offeror reserves the right to revise the terms of the Offer in compliance with the Takeovers Code.

WARNING: The Offer may or may not become unconditional and will lapse if it does not become unconditional. Accordingly, the Shareholders, and prospective investors of the Company 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 professional advisers.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation with regard to the 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 year ended 31 December 2021 ("FY2021"), FY2022 and FY2023 respectively, as extracted from the Annual Reports:

	FY2023	FY2022	FY2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Audited)	(Audited)	(Audited)
Revenue	10,265,310	10,255,225	9,566,382
Cost of sales	(8,660,013)	(8,973,085)	(8,236,171)
Gross profit	1,605,297	1,282,140	1,330,211
Other income, gains and losses	105,070	224,853	142,245
Selling and marketing expenses	(392,930)	(393,955)	(409,853)
Administrative expenses	(455,147)	(431,206)	(431,922)
Finance costs	(238,489)	(87,717)	(65,590)
Share of results of joint ventures	2,491	1,978	1,568
Profit before income tax	626,292	596,093	566,659
Income tax expense	(140,814)	(111,415)	(93,200)
Profit for the year	485,478	484,678	473,459
Attributable to:			
Equity holders of the			
Company	474,760	486,512	462,498
Non-controlling interests	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 RMB9,566.4 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.

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 RMB1,605.3 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.

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.

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 a final dividend for FY2023.



(ii) *Financial position*

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

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



	As at 31 December 2023 RMB'000 (Audited)	As at 31 December 2022 RMB'000 (Audited)
Current liabilities		
Trade and bills payables	2,300,044	2,422,478
Other payables and accruals	509,763	504,894
Lease liabilities	13,084	12,002
Interest-bearing bank borrowings	5,033,996	3,824,249
Tax payable	48,825	64,770
	<u>7,905,712</u>	<u>6,828,393</u>
Net current (liabilities)/assets	(524,532)	562,170
Non-current liabilities		
Government grants	16,574	13,604
Interest-bearing bank borrowings	246,665	1,387,199
Lease liabilities	74,348	64,852
Deferred tax liabilities	71,568	52,056
	<u>409,155</u>	<u>1,517,711</u>
Total liabilities	8,314,867	8,346,104
Net assets	5,927,892	5,728,402
EQUITY		
Equity attributable to equity holders		
Share capital	2,730,433	2,730,433
Reserves	2,824,793	2,648,311
	<u>5,555,226</u>	<u>5,378,744</u>
Non-controlling interests	372,666	349,658
Total equity	5,927,892	5,728,402

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% and around 87.0% of the total non-current assets as of both 31 December 2022 and 2023 respectively. Total non-current assets of the Group as at 31 December 2023 remained largely similar as that of 31 December 2022.



Total current assets of the Group were mainly comprised of inventories, trade and bills receivables and cash and cash equivalents as of both 31 December 2022 and 31 December 2023. Total current assets of the Group as at 31 December 2023 amounted to RMB7,381.2 million, which remained relatively steady compared to the total current assets of the Group as at 31 December 2022 amounted to RMB7,390.6 million.

Total current liabilities of the Group mainly comprised trade and bills payables and interest-bearing bank borrowings as of both 31 December 2022 and 31 December 2023. 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. Consequently, the Group recorded net current liabilities of approximately RMB524.5 million as at 31 December 2023. As stated in the 2023 Annual 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 both 31 December 2022 and 2023. 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.

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.

Total equity attributable to the Company's equity holders as at 31 December 2022 and 31 December 2023 was approximately RMB5,555.2 million and RMB5,378.7 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 was approximately RMB4.99 per Share (equivalent to approximately HK\$5.51 per Share) as at 31 December 2023. The Offer Price of HK\$6.87 represents a premium of approximately 24.7% to the net asset value per Share as at 31 December 2023.



2. Information on the Offeror

The Offeror is a company incorporated in the British Virgin Islands with limited liability. It is principally engaged in investment holding activities. As at 26 July 2024 (being the latest practicable date of the Offer Document), the Offeror is directly wholly-owned by Changping Industrial. Changping Industrial is held as to 61.54% and 38.46% by Baowu and China Reform Investment, respectively. Baowu is directly owned as to 90% by SASAC and as to 10% by National Council for Social Security Fund of the PRC. China Reform Investment is directly wholly-owned by China Reform Holdings Corporation Ltd., which in turn is wholly-owned by SASAC.

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 2023 Annual Report, the government remains committed to fostering the healthy development of the consumer market in 2024. The Ministry of Commerce has set the tone for 2024 as the “Consumption-Promoting Year (消費促進年)”, in which it will adhere to the dual-wheeled drive of “policies + activities” and organise a series of consumption-promoting activities to promote a gradual transition of consumption from post-pandemic recovery to sustained expansion. The orderly implementation of these initiatives will boost China’s consumer market, especially sectors of service consumption such as catering, cultural tourism and hospitality. It is reasonable to expect that the outlook for demands on packaging products would remain positive in 2024 given the favourable government policies.

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 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. 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; 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. 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.



Independent Shareholders should also note that, save for the Offeror indicating its intention to privatise the Company by exercising the compulsory acquisition rights to compulsorily acquire Offer Shares not acquired by the Offeror under the Offer if within four months after the date of the Offer Document it has acquired not less than 90% of the Offer Shares, no concrete and detailed business plan has been provided by the Offeror on the future business development of the Group in the Offer Document.

4. The Offeror's intentions on the Group

As stated in the letter from Shenwan Hongyuan of the Offer Document, save as that the Offeror intends to nominate new Directors to the Board but has not finalised who will be nominated as the new Directors, the Offeror does not have any intention to introduce any significant changes to the existing business operations and management of the Group, including any redeployment of the fixed assets of the Company, nor does it have any intention to make any significant changes to the continued employment of the Group's employees. The Board is aware of the intention of the Offeror in respect of the Group and its employees and is willing to co-operate with the Offeror and act in the best interests of the Company and the Shareholders as a whole.

If the Offeror acquires such number of the Shares under the Offer as represents not less than 90% of all the Shares (by virtue of the acceptances of the Offer or otherwise) and not less than 90% of all the Shares held by the Disinterested Shareholders by 4:00 p.m. on the Final Closing Date, the Offeror intends to take private the Company by exercising the compulsory acquisition rights to which it is entitled under Rule 2.11 of the Takeovers Code and Subdivision 2 of Division 4 of Part 13 of the Companies Ordinance to acquire the remaining Shares held by the Disinterested Shareholders, following which the listing of the Company on the Main Board of the Stock Exchange shall be withdrawn pursuant to the Listing Rules.

If the level of acceptance of the Offer reaches the prescribed level under the Companies Ordinance required for compulsory acquisition and the requirements of Rule 2.11 of the Takeovers Code are satisfied, an application will be made for the withdrawal of the listing of the Shares from the Stock Exchange pursuant to Rule 6.15(1) of the Listing Rules. To ensure an organised exit, the Directors agree that dealings in the Shares shall be suspended from the Closing Date up to the withdrawal of listing of the Shares from the Stock Exchange.

Whilst it is the intention of the Offeror to take private the Company, the Offeror's ability to exercise rights of compulsory acquisition in respect of the Shares is dependent on the level of acceptance of the Offer reaching the prescribed level under Subdivision 2 of Division 4 of Part 13 of the Companies Ordinance, which is 90% of all the Shares, and on the requirements of Rule 2.11 of the Takeovers Code, which is 90% of all the Shares held by the Disinterested Shareholders, being satisfied. If the Shares validly tendered for acceptance under the Offer by 4:00 p.m. on the Final Closing Date are less than 90% of all the Shares or less than 90% of all the Shares held by the Disinterested Shareholders, the Shares will remain listed on the Main Board of the Stock Exchange.



If, upon closing of the Offer, less than the minimum prescribed percentage applicable to the Company, being 25% of the Shares, are held by the public or if the Stock Exchange believes that:

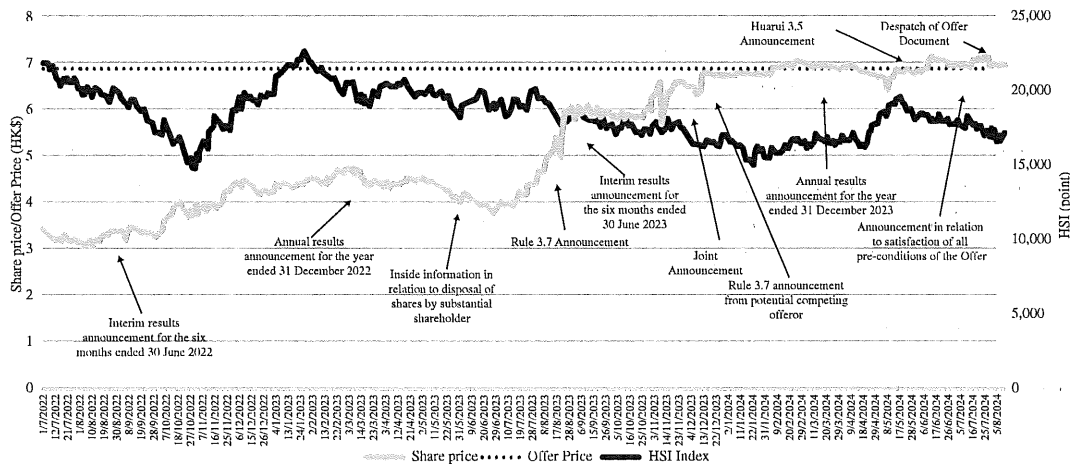
- (a) a false market exists or may exist in the trading of the Shares; or
- (b) there are insufficient Shares in public hands to maintain an orderly market,

the Stock Exchange will consider exercising its discretion to suspend trading in the Shares until the prescribed level of public float is restored. It should be noted that, upon completion of the Offer, there may be insufficient public float and therefore trading in the Shares may be suspended until a prescribed level of public float is attained.

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 1 July 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\$3.02 to HK\$6.60 per Share during the period between 1 July 2022 and 29 November 2023, being the last trading day immediately prior to the publication of the Joint Announcement (the “**Last Trading Day**”) (both dates inclusive, the “**Pre-announcement Period**”), with an average closing price of around HK\$4.43 per Share.



For the period between 1 July 2022 and 16 August 2023, being the last trading date prior to the publication of the Rule 3.7 Announcement (both dates inclusive, the “**Pre-3.7 Announcement Period**”), the closing price per Share ranged from HK\$3.02 to HK\$5.36 per Share with an average of around HK\$4.03 per Share. The closing prices of the Shares were below the Offer Price of HK\$6.87 for the entire Pre-announcement Period.

As shown in the chart above, we note that Share closing price fluctuated between HK\$3.40 per Share on 1 July 2022 to HK\$3.02 per Share on 2 and 3 August 2022, before it demonstrated a gradual upward trend in the period from August 2022 to March 2023 with fluctuations ranged from HK\$3.02 per Share to HK\$4.70 per Share. During such period, we note that the Company published (i) its interim results announcement for the six months ended 30 June 2022 and its Share closing prices increased slightly by approximately 1.52% from HK\$3.28 per Share on 22 August 2022 to HK\$3.33 per Share on 23 August 2022; and (ii) its annual results announcement of the Company for the year ended 31 December 2022 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 Corporation, 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 Rule 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. On 17 August 2023, the Company published the Rule 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 six months ended 30 June 2023 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. Trading in the Shares was suspended from 30 November 2023 pending the release of the Joint Announcement. Following the publication of the Joint 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% from the closing price of the Last Trading Day.



On 12 December 2023 (before trading hours), the Company published a Rule 3.7 announcement in relation to the potential competing offeror (“**Huarui 3.7 Announcement**”), which stated that they have interest in pursuing a possible voluntary conditional offer to acquire the Shares (other than those already owned by or to be acquired by such potential competing offeror 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 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 the year ended 31 December 2023 and there was no material fluctuation on the Share price. On 7 June 2024 (after trading hours), the Company and Huarui Fengquan Development Limited jointly published the Huarui 3.5 Announcement in relation to the Huarui Offer 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 around the Offer Price between the range of HK\$6.83 to HK\$7.13 per Share. On 15 July 2024 (after trading hours), the Offeror published the announcement in relation to the fulfillment of all the pre-conditions of the Offer and the Share closing price increased by approximately 1.88% and closed at HK\$7.03 per Share on the next trading day. 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 has been published 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. Since then, the closing price of the Share fluctuated between the range of HK\$6.91 to HK\$6.97 per Share and the Share closing price as at Latest Practicable Date was HK\$6.94.

The Offer Price of HK\$6.87 per Share represents:

- (a) a discount of approximately 1.0% to the closing price as quoted on the Stock Exchange on the Latest Practicable Date of HK\$6.94 per Share;
- (b) a premium of approximately 32.1% over the closing price of HK\$5.2 per Share as quoted on the Stock Exchange on 16 August 2023, the last trading day prior to the publication of the Rule 3.7 Announcement;
- (c) a premium of approximately 36.0% over the average closing price of approximately HK\$5.05 per Share for the 5 consecutive trading days up to and including the last trading day prior to the publication of the Rule 3.7 Announcement;
- (d) a premium of approximately 41.1% over the average closing price of approximately HK\$4.87 per Share for the 10 consecutive trading days up to and including the last trading day prior to the publication of the Rule 3.7 Announcement;
- (e) a premium of approximately 56.5% over the average closing price of approximately HK\$4.39 per Share for the 30 consecutive trading days up to and including the last trading day prior to the publication of the Rule 3.7 Announcement;



- (f) a premium of approximately 63.6% over the average closing price of approximately HK\$4.20 per Share for the 60 consecutive trading days up to and including the last trading day prior to the publication of the Rule 3.7 Announcement;
- (g) a premium of approximately 6.0% over the closing price of HK\$6.48 per Share as quoted on the Stock Exchange on 29 November 2023, being the Last Trading Day;
- (h) a premium of approximately 4.7% over the average closing price of approximately HK\$6.56 per Share for the 5 consecutive trading days up to and including the Last Trading Day;
- (i) a premium of approximately 5.4% over the average closing price of approximately HK\$6.52 per Share for the 10 consecutive trading days up to and including the Last Trading Day;
- (j) a premium of approximately 10.1% over the average closing price of approximately HK\$6.24 per Share for the 30 consecutive trading days up to and including the Last Trading Day;
- (k) a premium of approximately 13.2% over the average closing price of approximately HK\$6.07 per Share for the 60 consecutive trading days up to and including the Last Trading Day; and
- (l) a premium of approximately 24.7% to the audited 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 audited consolidated net assets attributable to owners of the Company of approximately RMB5,555,226,000 as at 31 December 2023; (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.

Shareholders should note that the Share price movement following the publication of the Rule 3.7 Announcement and the Joint Announcement are likely to be driven by the Offer and as such, the sustainability of the current Share price level could be uncertain if the 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 and the Pre-3.7 Announcement 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			
July	333,551	0.03%	0.14%
August	211,957	0.02%	0.09%
September	402,190	0.04%	0.17%
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	1,369,475	0.12%	0.59%
During the Pre-3.7 Announcement Period (i.e. 4 July 2022 to 16 August 2023)	357,555	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%
1 November – 29 November (Last Trading Day)	954,642	0.09%	0.41%
During the Pre-announcement Period (i.e. 4 July 2022 to the Last Trading Day)	438,357	0.04% (Note 3)	0.18% (Note 3)



	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)
From 7 December 2023 (i.e. the first trading day following the publication of the Joint Announcement) – 11 December 2023 (i.e. the last trading day prior to the publication of Huarui 3.7 Announcement)	8,100,667	0.73% (Note 3)	3.35% (Note 3)
From 12 December 2023 (i.e. the first trading day following the publication of the Huarui 3.7 Announcement) – 7 June 2024 (i.e. the last trading day prior to the publication of Huarui 3.5 Announcement)	949,340	0.09% (Note 3)	0.39% (Note 3)
From 11 June 2024 (i.e. the first trading day following the publication of the Huarui 3.5 Announcement) – the Latest Practicable Date	1,181,767	0.11% (Note 3)	0.46% (Note 3)

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 Pre-3.7 Announcement Period was 357,555 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 Rule 3.7 Announcement in August 2023 heightened the trading volume to an average of approximately 1,558,455 Shares for the remaining trading days in August, representing 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 Joint Announcement, the daily trading volume of the Shares increased significantly to an average of around 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 Huarui 3.7 Announcement.

After the publication of the Huarui 3.7 Announcement, the average daily trading volume of the Shares decreased to around 949,340 Shares, representing around 0.09% of the total volume of issued Shares and around 0.39% of total public float, during the period from 12 December 2023 to 7 June 2024, being the last trading day prior to the publication of Huarui 3.5 Announcement. After the publication of the Huarui 3.5 Announcement, the average daily trading volume of the Shares increased to around 1,181,767 Shares, representing around 0.11% of the total volume of issued Shares and around 0.46% of total public float during the period from 11 June 2024 (being the first trading day immediately after the publication of the Huarui 3.5 Announcement) to the Latest Practicable Date.

Independent 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 Independent 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 Offer therefore represents an opportunity for the Independent Shareholders, particularly for those who hold a large volume of Shares, to dispose of their holdings at the Offer Price if they so wish, provided the 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 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; and (iii) recorded a net profit attributable to owners of the company for their latest financial year results.

Based on the aforementioned criteria, we identified an exhaustive list of 7 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	Market Capitalisation HK\$'million	P/E Ratio times (Note 1)	P/B Ratio times (Note 2)	Dividend yield % (Note 3)
Lee & Man Paper Manufacturing Limited ("L&M")	2314.HK	10,136.2	8.8	0.4	3.6
Greatview Aseptic Packaging Company Limited ("GAP")	468.HK	2,955.0 (Note 5)	11.0	0.9	4.8
Pacific Millennium Packaging Group Corporation ("Pacific Millennium")	1820.HK	1,894.0	76.9	2.9	2.5
Hung Hing Printing Group Limited	450.HK	935.1	6.9	0.3	12.6
Southeast Asia Properties & Finance Ltd	252.HK	631.2	21.6	0.6	1.1
China Aluminum Cans Holdings Limited	6898.HK	602.7	28.1	1.9	1.1
Starlite Holdings Limited	403.HK	96.6	5.5	0.2	13.0
	Minimum		5.5	0.2	1.1
	Maximum		76.9	2.9	13.0
	Median		11.0	0.6	3.6
	Average		22.7	1.0	5.5
	Excluding Pacific Millennium's P/E Ratio as an outlier (Note 6):				
			Median	9.9	
			Average	13.7	
The Company (based on the Offer Price)		7,649.2	14.6 (Note 4)	1.3 (Note 4)	1.9

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 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 and final dividends 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 Offer Price were calculated based on the profit attributable to equity holders of the Company for FY2023 and the net asset value attributable to equity holders of the Company as at 31 December 2023, respectively, as disclosed in the 2023 Annual Report and the implied market capitalisation of the Company as represented by the 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 offer, which was 9 May 2024.
6. The P/E Ratio of Pacific Millennium of approximately 76.9 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 Offer Price is within the range of the P/E Ratio of the Comparable Companies, and is higher than the median and the average P/E Ratio of the Comparable Companies excluding the outlier; and (ii) the implied P/B Ratio represented by the Offer Price is higher than the average and median of P/B Ratio of the Comparable Companies.

Independent Shareholders should also note from the table above that most of the Comparable Companies have market capitalisation substantially lower than that of the Company which was around HK\$5,789.8 million as at the last trading day prior to the publication of the Rule 3.7 Announcement. As such, on a closer examination of the Comparable Companies with market capitalisation of between HK\$2 billion and 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 Rule 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 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 Independent 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 29 July 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 13.84 times and 1.16 times respectively based on the GAP Offer Price. As such, the implied P/E Ratio and the P/B Ratio represented by the Offer Price are both higher than the respective ratios under the GAP Offer.



As shown in the table above, the implied dividend yield of the Company based on the 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 Offer Price, while at the same time, it also reflects the fact that the Offer Price relative to dividend is favourable in this respect.

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

THE HUARUI OFFER

As disclosed in Huarui 3.5 Announcement, on 7 June 2024, Huarui notified the Company that it has a firm intention, subject to the satisfaction of the Huarui Offer Pre-Conditions, through CSCI on behalf of Huarui, to make a voluntary conditional general cash offer to acquire all the Shares not already owned by Huarui and parties acting in concert with it at the Huarui Offer Price of HK\$7.21 per Share subject to the Huarui Offer. Shareholders are recommended to refer to the Huarui 3.5 Announcement for other terms and conditions of the Huarui Offer.

According to the latest joint announcement of Huarui and the Company dated 29 July 2024, in relation to the latest progress of the Huarui Pre-Conditions, the approval by the shareholders of ORG Technology of the loans and guarantee proposed for the financing of the Huarui Offer has been obtained on 24 June 2024, and Huarui has already made merger control filing in respect of the Huarui Offer to SAMR and the filing is currently under review by the SAMR. In addition, Huarui has already made relevant applications to NDRC and the local authority of MOFCOM in connection with the Huarui Offer. The relevant applications are currently under review by NDRC and the local authority of MOFCOM. As at the Latest Practicable Date, Huarui has not announced satisfaction of any of the remaining Huarui Offer Pre-Conditions. All Huarui Offer Pre-Conditions are incapable of being waived. If any of the Huarui Offer Pre-Conditions is not satisfied on or before the Pre-Conditions Long Stop Date (as defined below), the Huarui Offer will not be made. Huarui Offer, if made following the satisfaction of Huarui Offer Pre-Conditions, will be a competitive bid which has a higher offer price of HK\$7.21 per Share which is approximately 5% higher than the Offer Price of HK\$6.87 per Share.

It was disclosed in the Huarui 3.5 Announcement that Huarui and parties acting in concert with it were interested in in aggregate 272,070,200 Shares, representing approximately 24.43% of the issued Shares, as at the date of the Huarui 3.5 Announcement. It was also disclosed that on 6 June 2024, Mr. Zhang Wei (who holds 245,080,000 Shares (“**Zhang’s Relevant Shares**”), representing approximately 22.01% of the issued Shares as at the date of the Huarui 3.5 Announcement) and Huarui entered into the irrevocable undertaking (“**Zhang’s 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 Zhang’s Relevant Shares prior to the last acceptance date of the Huarui Offer, and Mr. Zhang Wei has undertaken not to withdraw such acceptance. As disclosed in the Huarui 3.5 Announcement, the Zhang’s Irrevocable Undertaking will be terminated immediately upon (i) the Huarui Offer having lapsed, been withdrawn or closed, (ii) the Huarui Offer Pre-Conditions not having been satisfied on or before 6 January 2025 (or such later date as determined by Huarui) (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 Zhang’s Relevant Shares within 6 months from the date of the Zhang’s Irrevocable Undertaking, or (v) the written consent of Huarui and Mr. Zhang Wei, whichever is earlier. Shareholders are recommended to refer to the Huarui 3.5 Announcement for information on Huarui and parties acting in concert with it and further details of the Zhang’s Irrevocable Undertaking.



According to the Huarui 3.5 Announcement, the Huarui Offer will be 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 date to be stated in the composite document in relation to the Huarui Offer as the first offer closing date of the Huarui Offer or any subsequent offer closing date of the Huarui Offer as may be extended or revised in accordance with the Takeovers Code (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 parties acting in concert with Huarui collectively holding more than 50% of the voting rights of the Company. If Huarui acquires not less than 90% of the Shares subject to the Huarui Offer (as required by Section 693 of the Companies Ordinance) and not less than 90% of the disinterested Shares under the Huarui Offer (which represent all Shares other than those held by Huarui and parties acting in concert with it, being 841,352,800 Shares in issue) within the period commencing on the date of the Huarui 3.5 Announcement and ending on the date falling four (4) months after the date of the composite document in relation to Huarui Offer (or such later date as the SFC may permit for the requisite level of acceptances to be reached in order for Huarui to undertake compulsory acquisition), 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.

Independent Shareholders should note that the Huarui Offer, if made following the satisfaction of the Huarui Offer Pre-Conditions, is subject to among others, the same 50% Acceptance Condition for the Offer. Although the Huarui Offer Price of HK\$7.21 is higher than the Offer Price of HK\$6.87, Huarui Offer is still, up to the Latest Practicable Date, subject to the satisfaction of Huarui Offer Pre-Conditions. It should also be noted that based on publicly available information, taking into account the Zhang's Irrevocable Undertaking in respect of the Huarui Offer, the Huarui Offer, if made, is much closer to satisfying the 50% Acceptance Condition as the aggregate Shares held by Huarui and parties acting in concert with it and Zhang's Relevant Shares are at least 517,150,200 or approximately 46.44% of the issued Shares as compared to around 29.7% of the issued Shares under the Irrevocable Undertaking in respect of the Offer. This also presents an obstacle to the Offer becoming unconditional which requires at least a 50% acceptance level. In order to achieve this, nearly all Shareholders other than those committed to the Huarui Offer would have to accept the Offer.

As at the Latest Practicable Date, the making of the Huarui Offer is a possibility only as Huarui Offer Pre-Conditions has not been satisfied. Shareholders and potential investors of the Company should note that there is no assurance that the Huarui Offer will proceed.

DISCUSSION

We consider the Offer, including the Offer Price, to be fair and reasonable so far as the Independent 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 years, 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 Offer Price is higher than the Share closing prices during the entire Pre-announcement Period, and represents a premium of
 - (i) approximately 70.5% over the average closing price for the Pre-3.7 Announcement Period of around HK\$4.03 per Share;
 - (ii) over 30% over the average closing prices of the Shares as quoted on the Stock Exchange for the 5, 10, 30 and 60 trading days up to and including the last trading day prior to the publication of the Rule 3.7 Announcement;
3. the Offer Price represents a premium of approximately 24.7% over the audited consolidated net asset value of approximately RMB4.99 per Share (equivalent to approximately HK\$5.51 per Share) as at 31 December 2023 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 Independent 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 Offer therefore represents an opportunity for the Independent Shareholders, particularly for those who hold a large volume of Shares, to dispose of their holdings at the Offer Price if they so wish, assuming the Offer becomes unconditional; and
5. the implied P/E Ratio represented by the Offer Price is within the range of the P/E Ratio of the Comparable Companies, and is higher than the median and the average P/E Ratio of the Comparable Companies excluding the outlier; and the implied P/B Ratio represented by the 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 Offer are fair and reasonable so far as the Independent Shareholders are concerned and, in view of the fact that the making of the Huarui Offer is still subject to Huarui Offer Pre-Conditions as of the Latest Practicable Date, accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to accept the Offer.

However, following the Joint Announcement, the Shares have traded from time to time above the Offer Price, closing at HK\$6.94 per Share as at the Latest Practicable Date. Independent Shareholders who intend to realise their investments in the Company in whole or in part by accepting the 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 Offer, such Independent Shareholders should consider selling their Shares in the open market instead of realising their investment by accepting the Offer. Independent 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.



In addition, in view of the Huarui Offer at the Huarui Offer Price of HK\$7.21 which is higher than the Offer Price, with the Huarui Offer Pre-Conditions having yet been satisfied as at the Latest Practicable Date but may or may not be fulfilled prior to the close of the Offer, Independent Shareholders who intend to realise their investments in the Company in whole or in part by accepting the Offer should also closely monitor the timetable and all announcement(s) to be made by the Company or Huarui in respect of the Huarui Offer and consider the then progress and likelihood of the Huarui Offer Pre-Conditions being fulfilled and/or the Huarui Offer for becoming unconditional, before accepting the Offer. Risk-averse Shareholders in particular may wish to consider selling some or all of their Shares in the market during the Offer Period if the proceeds of selling in the market (net of costs) would be higher than the net proceeds receivable under the Offer, as it is possible that neither offer will become unconditional, in which case, other things being equal, the Share price may fall back towards the levels at which it traded before the Offer was announced.

The procedures for acceptance of the Offer are set out in Appendix I to the Offer Document and the accompanying Form of Acceptance. Independent Shareholders are urged to read the timetable set out in the Offer Document and any revised timetable (if any) to be announced by the Offeror or the Company carefully and act accordingly if they wish to accept the 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 Securities and Futures Commission 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 Securities and Futures Commission 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 19 years of experience in the corporate finance industry.