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23 November 2020

*To: The Independent Board Committee of  
TEM Holdings Limited*

Dear Sirs,

**(1) PROPOSED PRIVATISATION OF TEM HOLDINGS LIMITED BY  
THE OFFEROR BY WAY OF A SCHEME OF ARRANGEMENT  
(UNDER SECTION 86 OF THE COMPANIES LAW)  
AND  
(2) PROPOSED WITHDRAWAL OF LISTING**

**INTRODUCTION**

We refer to our engagement as the independent financial adviser to the Independent Board Committee in respect of the Proposal and the Scheme, details of which are set out in the Scheme Document jointly issued by the Offeror and the Company dated 23 November 2020, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Scheme Document unless otherwise defined or the context requires otherwise.

Reference is made to the Announcement where the Offeror and the Company jointly announced that, on 16 September 2020, the Offeror requested the Board to put forward the Proposal to the Scheme Shareholders for the privatisation of the Company by way of the Scheme, being a scheme of arrangement under Section 86 of the Companies Law involving the cancellation and extinguishment of the Scheme Shares and, in consideration thereof, the payment to the Scheme Shareholders as at the Scheme Record Date of the Cancellation Price of HK\$0.0855 in cash for each Scheme Share cancelled and extinguished, and the withdrawal of the listing of the Shares on the Stock Exchange.

**INDEPENDENT BOARD COMMITTEE**

The Independent Board Committee which comprises Ms. Koay Lee Chern, Mr. Ma Yiu Ho Peter, Mr. Lee Hon Man Eric and Mr. Cheung Wai Kuen, being all of the non-executive Directors or independent non-executive Directors, as the case may be, has been established by the Board to make a recommendation to the Independent Shareholders as to (i) whether the terms of the Proposal and the Scheme are fair and reasonable; and (ii) whether to vote in favour of the Scheme and the Proposal at the Court Meeting and the EGM, respectively. We, TUS Corporate Finance Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee in these regards.

## **OUR INDEPENDENCE**

We are not connected, financially or otherwise, with the Company, the Offeror, their respective substantial shareholders or stockbrokers or any party acting, or presumed to be acting, in concert with any of them. In the past two years prior to the commencement of the Offer Period, there was no engagement or connection between the Company or the Offeror and/or their respective controlling shareholders on one hand and us on the other hand. As at the Latest Practicable Date, we did not have any relationships or interests with the Company or any other parties that could reasonably be regarded as relevant to our independence. Apart from normal professional fees paid or payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company, the Offeror, their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them. Accordingly, we are considered eligible to give independent advice in respect of the Proposal and the Scheme.

## **BASIS OF OUR OPINION**

In formulating our opinion and recommendations, we have relied on the information, facts and representations contained or referred to in the Scheme Document and the information, opinions and representations provided or expressed to us by the Directors and/or the management of the Company. We have assumed that all information, facts and representations contained or referred to in the Scheme Document, and all information, opinions and representations provided or expressed by the Directors and/or the management of the Company, for which they are solely responsible, are true, accurate and complete in all material respects at the time when they were provided and continue to be so as at the Latest Practicable Date and that they may be relied upon in formulating our opinion. The Scheme Shareholders will be notified of any material changes to such information and representations as soon as possible after the Latest Practicable Date and throughout the Offer Period in accordance with Rule 9.1 of the Takeovers Code.

We have also assumed that all views, opinions and statements of intention or belief provided or expressed by the Directors and the management, advisers and/or representatives of the Company have been arrived at after due and careful enquiries. We consider that we have been provided with, and have reviewed, all currently available information and documents which are available under present circumstances to enable us to reach an informed view and to provide a reasonable basis for our opinion. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any facts or circumstances which would render the information provided and representations made to us untrue, inaccurate or misleading. We consider that we have performed all the necessary steps to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our opinion. We have not, however, conducted any independent verification of the information provided by the Directors and the management, advisers and/or representatives of the Company nor have we conducted independent investigation into the business, affairs or future prospects of the Group. Our opinion is necessarily based on the financial, economic, market and other conditions in effect, and the information made available to us, as at the Latest Practicable Date.

The Directors jointly and severally accept full responsibility for the accuracy of information contained in the Scheme Document relating to the Group and the Directors and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Scheme Document by the Company and the Directors have been arrived at after due and careful consideration and there are no other facts not contained in the Scheme Document, the omission of which would make any statement in the Scheme Document misleading. In addition, the sole director of the Offeror (i.e. Mr. Lau Man Tak) and the directors of New Universe (i.e. Mr. Lau Man Tak and Mr. Kan Wai Kee) accept full responsibility for the accuracy of the information contained in the Scheme Document (other than information relating to the Group and the Directors) and confirm, having made all reasonable enquiries, that to the best of their respective knowledge, opinions expressed in the Scheme Document (other than those expressed by the Company or the Directors) have been arrived at after due and careful consideration and there are no other facts not contained in the Scheme Document, the omission of which would make any statement in the Scheme Document misleading.

We have not considered the tax and regulatory implications on the Independent Shareholders in connection with the Proposal and the Scheme since these are particular to their individual circumstances. In particular, the Independent Shareholders who are overseas residents or subject to overseas taxation or Hong Kong taxation on securities dealings should consider their own tax positions and, if in any doubt, should consult their own professional advisers.

This letter is issued for the information of the Independent Board Committee solely in connection with their consideration of the Proposal and the Scheme. Except for its inclusion in the Scheme Document, this letter is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes without our prior written consent.

## **PRINCIPAL TERMS OF THE PROPOSAL**

Set out below is a summary of the terms of the Proposal and the Scheme, details of which are set out in the letter from the Board (the “**Letter from the Board**”) in Part IV of the Scheme Document, the Explanatory Statement in Part VII of the Scheme Document and Appendix III to the Scheme Document. Independent Shareholders are encouraged to read the Scheme Document and the appendices in full.

### **1. Cancellation Price**

Under the Proposal, subject to the Scheme becoming binding and effective in accordance with its terms, the Scheme Shareholders as at the Scheme Record Date will be entitled to receive the Cancellation Price of HK\$0.0855 in cash for each Scheme Share cancelled and extinguished under the Scheme.

As at the Latest Practicable Date, no dividends or distribution declared by the Company was outstanding. The Company does not intend to declare any dividends or distribution during the Offer Period.

**The Cancellation Price will not be increased, and the Offeror does not reserve the right to do so.**

The Cancellation Price has been determined on a commercial basis after taking into account, among others, the prices of the Shares traded on the Stock Exchange, the financial information of the Group including the financial position of the Group as at 30 June 2020, the Offeror's review of the Group's business and its future prospects, and with reference to other privatisation transactions in Hong Kong in recent years.

As at the Latest Practicable Date, (i) the Scheme Shares comprised 150,000,000 Shares (representing 25% of the total issued Shares); (ii) the Offeror held an aggregate of 450,000,000 Shares (representing 75% of the total issued Shares) which will not form part of the Scheme Shares and will not be voted on the Scheme at the Court Meeting; and (iii) there were no outstanding convertible securities, warrants, options or derivatives in respect of any Shares.

On the basis of the Cancellation Price of HK\$0.0855 per Scheme Share and 150,000,000 Scheme Shares being in issue as at the Latest Practicable Date and assuming that no further Shares will be issued or repurchased before the Scheme Record Date, the Scheme Shares are in aggregate valued at approximately HK\$12,825,000, which represents the amount of cash required for the Proposal.

## **2. Conditions of the Proposal and the Scheme**

The Proposal and the Scheme will become effective and binding on the Company and all the Scheme Shareholders, subject to the fulfilment or waiver (as applicable) of the Conditions as set out in the Explanatory Statement in Part VII of the Scheme Document.

All of the Conditions will have to be fulfilled or waived, as applicable, on or before the Long Stop Date, being 31 March 2021 (or such later date as the Offeror and the Company may agree in writing, or, to the extent applicable, as the Grand Court on application of the Offeror or the Company may direct and in all cases, as permitted by the Executive), failing which the Scheme will not become effective and the Proposal will lapse. The Company has no right to waive any of the Conditions.

As at the Latest Practicable Date, none of the Conditions had been fulfilled or waived (as applicable).

## PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation with regard to the Proposal and the Scheme, we have considered the following principal factors and reasons:

### 1. Information of the Group

#### 1.1 Background information of the Group

The Company is a company incorporated in the Cayman Islands with limited liability, whose Shares have been listed on GEM since 18 May 2016. The Group is principally engaged in the manufacture and sale of wire/cable harnesses and power supply cords assembled products, with its manufacturing operations in Malaysia and the PRC; and trading of terminals, connectors and others.

#### 1.2 Financial information of the Group

##### (a) Financial performance

Set out below is a summary of the financial results of the Group (i) for the years ended 30 June 2018 (“**FY2018**”), 2019 (“**FY2019**”) and 2020 (“**FY2020**”) as extracted from the annual reports of the Company for FY2019 (the “**2019 Annual Report**”) and FY2020 (the “**2020 Annual Report**”), respectively; and (ii) for the three months ended 30 September 2019 (“**1Q2020**”) and 2020 (“**1Q2021**”) as extracted from the first quarterly report of the Company for the three months ended 30 September 2020 (the “**First Quarterly Report 2021**”):

	For the year ended 30 June			For the three months ended 30 September	
	2020	2019	2018	2020	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(audited)	(audited)	(audited)	(unaudited)	(unaudited)
Revenue					
— Manufacture and sale of wire/cable harnesses	85,856	82,713	89,979	25,270	22,450
— Manufacture and sale of power supply cords assembled products	6,838	9,506	11,573	2,184	2,094
— Trading of terminals, connectors and others	1,277	3,944	4,613	478	23
	<u>93,971</u>	<u>96,163</u>	<u>106,165</u>	<u>27,932</u>	<u>24,567</u>
Cost of sales	<u>(84,725)</u>	<u>(82,706)</u>	<u>(90,103)</u>	<u>(24,470)</u>	<u>(21,272)</u>

	For the year ended 30 June			For the three months ended 30 September	
	2020	2019	2018	2020	2019
	HK\$'000 (audited)	HK\$'000 (audited)	HK\$'000 (audited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)
Gross profit	9,246	13,457	16,062	3,462	3,295
Other income	1,233	815	557	1,640	642
Selling and distribution costs	(2,599)	(2,897)	(3,154)	(479)	(683)
Administrative expenses	(21,540)	(23,293)	(22,122)	(8,033)	(5,347)
Finance cost	(80)	—	—	(66)	(5)
Other gains and losses	(190)	494	(87)	767	(373)
Allowance for expected credit loss of deposits and other receivables, net	(35)	—	—	—	—
Reversal of allowance for expected credit loss of trade receivables, net	131	33	—	—	—
Loss before tax	(13,834)	(11,391)	(8,744)	(2,709)	(2,471)
Income tax (charge)/credit	(358)	628	(432)	(316)	(162)
Net loss attributable to the Shareholders	<u>(14,192)</u>	<u>(10,763)</u>	<u>(9,176)</u>	<u>(3,025)</u>	<u>(2,633)</u>

## Revenue

The manufacture and sale of wire/cable harnesses has been the major revenue stream of the Group which accounted for approximately 84.8%, 86.0%, 91.4% and 90.5% for the three years ended 30 June 2020 and the three months ended 30 September 2020, respectively. In addition, (i) for FY2020, revenue of the Group derived from the Asia Pacific region (excluding the PRC), the PRC, Western Europe and Americas accounted for approximately 49.1%, 32.5%, 12.5% and 5.9%, respectively; and (ii) for 1Q2021, revenue of the Group derived from the Asia Pacific region (excluding the PRC), the PRC, Western Europe and Americas accounted for approximately 45.9%, 37.9%, 9.6% and 6.6%, respectively.

Total revenue of the Group decreased from approximately HK\$106.2 million for FY2018 to approximately HK\$96.2 million for FY2019, representing a decrease of approximately HK\$10.0 million or approximately 9.4%. Such decrease was mainly attributable to (i) decrease in the completed orders of wire/cable harnesses resulted from the continuous shortage of supply and tight delivery of raw material from a major supplier; (ii) the decrease in sales of power supply cords assembled products due to the decrease in demand from one major power supply cords customer by approximately 46.8% in terms of sales

deriving from such customer on a year-to-year basis, primarily resulted from the ongoing price competitions; (iii) reduction of sales orders owing to fierce price competitions in the PRC and Asia Pacific market and US-China trade war; and (iv) the fluctuation in the exchange rate of Renminbi and Euro against Hong Kong dollars. With respect to the geographical segments of the Group, the decrease in total revenue of the Group of approximately HK\$10.0 million from FY2018 to FY2019 was mainly represented by a decline in revenue from the PRC of approximately HK\$9.5 million, which was mainly due to the decrease in demand from certain major customers of the Group in the PRC by approximately 52.7% in terms of sales deriving from such customers on a year-to-year basis, primarily resulted from the ongoing price competitions.

Total revenue of the Group further decreased from approximately HK\$96.2 million for FY2019 to approximately HK\$94.0 million for FY2020, representing a decrease of approximately HK\$2.2 million or approximately 2.3%. Such decrease was mainly attributable to (i) the temporary shut-down in both PRC factory and Malaysia factory from February to April 2020 due to the outbreak of COVID-19; the estimated aggregate non-production days of the Group was about six weeks; (ii) the decrease in sales of power supply cords assembled products due to the decrease in demand from two major power supply cords customers by approximately 28.1% in terms of sales deriving from such customers on a year-to-year basis, primarily resulted from the intensified market competition under the unfavourable trading environment caused by the COVID-19 pandemic; and (iii) the decrease in revenue generated from trading of terminals, connectors and others business segment in which the Group generally receives ad-hoc orders from its customers due to the decrease in demand from certain major customers of terminals and connectors by approximately 74.9% in terms of sales deriving from such customers on a year-to-year basis. With respect to the geographical segments of the Group, the decrease in total revenue of the Group of approximately HK\$2.2 million from FY2019 to FY2020 was mainly represented by a decline in revenue from the Asia Pacific region (excluding the PRC) of approximately HK\$5.5 million, which was mainly explained by the decrease in demand from one major customer in the Asia Pacific region by approximately 12.7% in terms of sales deriving from such customer on a year-to-year basis, primarily resulted from the intensified market competition under the unfavourable trading environment caused by the COVID-19 pandemic and US-China trade tension, partly off-set by an increase in revenue from the PRC of approximately HK\$3.0 million as a result of the increased sales from one major customer of the Group in the PRC by approximately 256.0% in terms of sales deriving from such customer on a year-to-year basis, primarily resulted from the low-price strategy adopted by the Group to secure such customer.

Total revenue of the Group increased from approximately HK\$24.6 million for 1Q2020 to approximately HK\$27.9 million for 1Q2021, representing an increase of approximately HK\$3.3 million or approximately 13.4%. Such increase was mainly attributable to the increase in sales of wire/cable harnesses

due to the increase in demand from four major wire/cable harnesses customers by approximately 50.3% in terms of sales deriving from such customers on a period-to-period basis, primarily resulted from the completion of customers' orders that had been postponed from previous quarters due to the outbreak of COVID-19. With respect to the geographical segments of the Group, the increase in total revenue of the Group of approximately HK\$3.3 million from 1Q2020 to 1Q2021 was mainly represented by an increase in revenue from the PRC of approximately HK\$2.9 million, which was mainly explained by the aforementioned increase in demand from the four major wire/cable harnesses customers who are located in the PRC.

#### Gross profit

Gross profit of the Group for FY2019 amounted to approximately HK\$13.5 million, representing a decrease of approximately HK\$2.6 million, or approximately 16.2%, from that of approximately HK\$16.1 million for FY2018. Such decrease was mainly attributable to (i) the revenue of the Group declined as aforementioned while the average unit cost increased proportionally due to the absorption of fixed manufacturing overheads such as factory rental, utilities and depreciation that led to a decrease in the gross margin from approximately 15.1% for FY2018 to approximately 14.0% for FY2019; and (ii) the provision of write-down of obsolete and slow-moving inventories included in the cost of sales based on annual review of the usability and saleability of inventories by the management of the Group.

Gross profit of the Group for FY2020 amounted to approximately HK\$9.2 million, representing a decrease of approximately HK\$4.3 million, or approximately 31.3%, from that of approximately HK\$13.5 million for FY2019. Such decrease was mainly attributable to (i) the provision of write-down of obsolete and slow-moving inventories amounted approximately HK\$3.4 million (which represented the net amount of the provision for the year of approximately HK\$4.2 million (FY2019: approximately HK\$0.5 million) and the reversal of provision for the year of approximately HK\$0.8 million (FY2019: approximately HK\$0.6 million)) based on annual review of the usability and saleability of inventories by the management of the Group, where such increase in provision of write-down of obsolete and slow-moving inventories for FY2020 was mainly due to the write-down of raw materials which were unique in nature for certain major customers whereas their demand for the Group's products decreased comparing with those in the previous years primarily resulted from the unfavourable trading environment caused by the COVID-19 pandemic and US-China trade tension; and (ii) the adoption of a more competitive pricing strategy under the intensive market competition. As a result, the gross profit margin of the Group further decreased from approximately 14.0% for FY2019 to approximately 9.8% for FY2020.



Gross profit of the Group for 1Q2021 amounted to approximately HK\$3.5 million, representing an increase of approximately HK\$0.2 million, or approximately 6.1%, from that of approximately HK\$3.3 million for 1Q2020. Such increase was mainly attributable to the increase in revenue of the Group as aforementioned. The gross profit margin for 1Q2021 of approximately 12.4% maintained at a similar level as compared to that for 1Q2020 of approximately 13.4%.

#### Administrative expenses

	For the year ended 30 June			For the three months ended 30 September	
	2020	2019	2018	2020	2019
	HK\$'000 (audited)	HK\$'000 (audited)	HK\$'000 (audited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)
Staff costs	8,709	9,720	8,685	2,219	2,158
Directors' remuneration	3,828	3,616	3,629	919	1,078
Rent and rates	1,348	1,601	1,633	318	354
Depreciation	1,254	1,540	1,412	302	353
Auditor's remuneration	800	1,342	1,141	200	225
Professional service fees	1,601	1,591	2,092	2,999	347
Others	4,000	3,883	3,530	1,076	832
Total	<u>21,540</u>	<u>23,293</u>	<u>22,122</u>	<u>8,033</u>	<u>5,347</u>

Administrative expenses of the Group for the three years ended 30 June 2020 and the three months ended 30 September 2020 amounted to approximately HK\$22.1 million, HK\$23.3 million, HK\$21.5 million and HK\$8.0 million, respectively, which represented approximately 20.8%, 24.2%, 22.9% and 28.8% of the total revenue of the Group for the respective year/period. It is noted that the administrative expenses of the Group were rather stable over the three years ended 30 June 2020.

#### Net loss attributable to the Shareholders

The Group recorded consecutive net loss attributable to the Shareholders of approximately HK\$9.2 million, HK\$10.8 million, HK\$14.2 million and HK\$3.0 million for the three years ended 30 June 2020 and the three months ended 30 September 2020, respectively.

Net loss attributable to the Shareholders increased from approximately HK\$9.2 million for FY2018 to approximately HK\$10.8 million for FY2019, representing an increase of approximately HK\$1.6 million or approximately 17.3%. Such increase was mainly attributable to (i) the decrease in gross profit of approximately HK\$2.6 million for the reasons as discussed above; and (ii) the increase in administrative expenses of approximately HK\$1.2 million due to

the increase in staff costs, partly off-set by (i) the turnaround effect of approximately HK\$1.1 million on income tax from the income tax charge of approximately HK\$0.4 million for FY2018 (which mainly comprised the deferred tax charge of approximately HK\$0.2 million and under-provision of income tax in prior years of approximately HK\$0.2 million) to the income tax credit of approximately HK\$0.6 million for FY2019 (which mainly comprised the deferred tax credit of approximately HK\$0.6 million); and (ii) the turnaround effect of approximately HK\$0.6 million on other gains and losses from other losses of approximately HK\$0.1 million for FY2018 to other gains of approximately HK\$0.5 million for FY2019, which was mainly due to exchange difference.

Net loss attributable to the Shareholders further increased from approximately HK\$10.8 million for FY2019 to approximately HK\$14.2 million for FY2020, representing an increase of approximately HK\$3.4 million or approximately 31.9%. Such increase was mainly attributable to the decline in gross profit of approximately HK\$4.3 million for the reasons as discussed above.

Net loss attributable to the Shareholders increased from approximately HK\$2.6 million for 1Q2020 to approximately HK\$3.0 million for 1Q2021, representing an increase of approximately HK\$0.4 million or approximately 15.4%. Such increase was mainly attributable to the increase in administrative expenses of approximately HK\$2.7 million due to the increase in professional service fees in connection with the Scheme incurred by the Group during the period, partly off-set by (i) the increase in other income of approximately HK\$1.0 million mainly attributable to the additional COVID-19 related government grant provided by the Malaysian government and sales of scrap materials whereas no such income was recorded for 1Q2020; and (ii) the turnaround effect of approximately HK\$1.2 million on other gains and losses from other losses of approximately HK\$0.4 million for 1Q2020 to other gains of approximately HK\$0.8 million for 1Q2021, which was primarily due to the unrealised exchange gain from the revaluation of an intra-group RMB-denominated loan as a result of the appreciation of RMB against HK\$ for 1Q2021.

(b) *Financial position*

Set out below is a summary of the financial position of the Group as at 30 June 2018, 2019 and 2020 as extracted from the 2019 Annual Report and the 2020 Annual Report, respectively:

	As at 30 June		
	2020	2019	2018
	HK\$'000	HK\$'000	HK\$'000
	(audited)	(audited)	(audited)
Non-current assets	17,547	16,751	17,131
Current assets	<u>104,857</u>	<u>124,501</u>	<u>135,860</u>
<b>Total assets</b>	<b><u>122,404</u></b>	<b><u>141,252</u></b>	<b><u>152,991</u></b>
Non-current liabilities	1,480	—	—
Current liabilities	<u>11,247</u>	<u>15,258</u>	<u>13,914</u>
<b>Total liabilities</b>	<b><u>12,727</u></b>	<b><u>15,258</u></b>	<b><u>13,914</u></b>
<b>Net current assets</b>	<b>93,610</b>	<b>109,243</b>	<b>121,946</b>
<b>Net assets</b>	<b><u>109,677</u></b>	<b><u>125,994</u></b>	<b><u>139,077</u></b>
Total assets			

Total assets of the Group as at 30 June 2018, 2019 and 2020 amounted to approximately HK\$153.0 million, HK\$141.3 million and HK\$122.4 million, respectively. Major assets of the Group mainly comprised of, among others, property, plant and equipment, inventories, trade and other receivables, and bank balances and cash.

Total assets of the Group decreased by approximately HK\$11.7 million, or approximately 7.7%, from HK\$153.0 million as at 30 June 2018 to HK\$141.3 million as at 30 June 2019. Such decrease was primarily due to (i) the decrease in bank balances and cash of approximately HK\$12.0 million; and (ii) the decrease in trade and other receivables of approximately HK\$4.8 million as a result of the decrease in revenue of the Group for FY2019, partly off-set by the increase in the inventories of approximately HK\$6.4 million. Total assets of the Group further decreased by approximately HK\$18.9 million, or approximately 13.4%, from approximately HK\$141.3 million as at 30 June 2019 to approximately HK\$122.4 million as at 30 June 2020. Such decrease was primarily due to (i) the decrease in bank balances and cash of approximately HK\$7.5 million; (ii) the decrease in trade and other receivables of

approximately HK\$6.5 million as a result of the decrease in revenue of the Group for FY2020; and (iii) the decrease in inventories of approximately HK\$4.6 million.

#### Total liabilities

Total liabilities of the Group as at 30 June 2018, 2019 and 2020 amounted to approximately HK\$13.9 million, HK\$15.3 million and HK\$12.7 million, respectively. Major liabilities of the Group mainly represented by trade and other payables which contributed as to approximately 99.5%, 100.0% and 81.6% of the total liabilities of the Group as at 30 June 2018, 2019 and 2020, respectively. Non-current liabilities of the Group amounted to approximately HK\$1.5 million as at 30 June 2020 represented by the non-current portion of lease liabilities of the Group (current portion of lease liabilities: HK\$0.8 million) being recognised in accordance with the adoption of Hong Kong Financial Reporting Standard 16 by the Company since 1 July 2019.

#### Net assets

Net assets attributable to the Shareholders amounted to approximately HK\$139.1 million as at 30 June 2018, which decreased to approximately HK\$126.0 million and HK\$109.7 million as at 30 June 2019 and 2020, representing a decrease of approximately 9.4% and 12.9%, respectively. Such decrease was mainly attributable to the net loss incurred for FY2019 and FY2020 of approximately HK\$10.8 million and HK\$14.2 million, respectively.

### ***1.3 Prospects of the Group***

The Group is principally engaged in the manufacture and sale of wire/cable harnesses and power supply cords assembled products, with its manufacturing operations in Malaysia and the PRC; and trading of terminals, connectors and others. As disclosed in the 2020 Annual Report and the First Quarterly Report 2021, the customers of the Group are generally global brand name home/consumer appliances manufacturers and original equipment manufacturers in the home/consumer appliances and industrial products industries that mainly based in the Asia Pacific region. We also noted from the 2020 Annual Report and the First Quarterly Report 2021 that over 80% of the Group's total revenue for each of FY2019 and FY2020 was derived from customers located in the Asia Pacific region. Besides, the manufacturing operations of the Group are also located in the region as mentioned above. Accordingly, the financial performance of the Group is

affected by the local economic activities to a certain extent. The following table sets out the real gross domestic product (“GDP”) growth rate and the estimated real GDP growth rate of the Asia Pacific region for the years indicated:

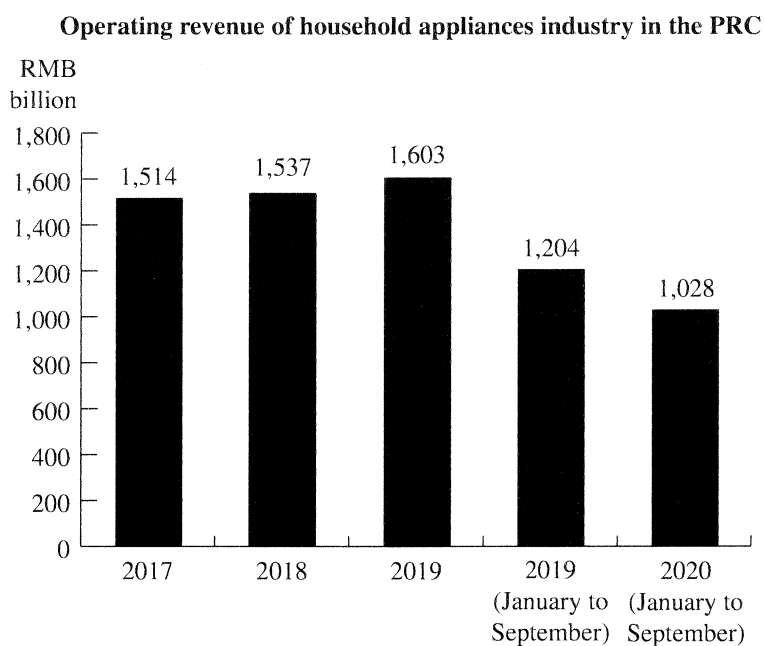
	2018	2019	2020e (Note)
<b>Real GDP growth rate</b>			
Asia Pacific	5.30%	4.55%	-2.25%

Source: *Asia and Pacific Regional Economic Outlook published by International Monetary Fund (“IMF”) in October 2020*

Note: Figures are estimated by IMF.

As depicted in the table above, the Asia Pacific region is expected to experience a sharp decrease in the real GDP growth for 2020, which is likely to be caused by the global coronavirus recession. According to IMF, global economic growth is expected to rebound in 2021 assuming the normalisation of economic activities, which depends critically on the pandemic fading in the second half of 2020, allowing containment efforts to be gradually scaled back and restoring consumer and investor confidence.

Apart from the economic impacts in the Asia Pacific region, we have further studied the household appliances industry in the PRC which is regarded as the largest consumer market for household appliances worldwide. The chart below sets out the operating revenue of household appliances industry in the PRC for the years or period indicated:



Source: *Website of Ministry of Industry and Information Technology of the PRC*

As illustrated in the chart above, the household appliances industry in the PRC has been growing steadily over the years between 2017 and 2019 in terms of operating revenue which reached approximately RMB1,603 billion in 2019. Such growth, in our view, is mainly driven by strong economic growth, rising disposable incomes and strong domestic demand in the country. However, following the outbreak of COVID-19 in early 2020, the industry was affected by the slowdown of economic activities and, in turn, approximately RMB1,028 billion of operating revenue was recorded for the first nine months in 2020, representing a decrease of approximately 14.6% as compared to the corresponding period in 2019.

In this respect, we have discussed with the management of the Company and are given to understand that COVID-19 has impacted the business operations of the Group due to lock-down and/or other cautionary actions taken by local governments from time to time. For instance, the lock-down due to the outbreak of COVID-19 in the PRC and Malaysia has brought the Group's manufacturing activities to a stand-still, in particular at its factories in the PRC and Malaysia in February and March 2020, respectively. Furthermore, due to the continuous increase in the number of COVID-19 cases in Malaysia, the Malaysian government has announced in October 2020 the conditional movement control order to be implemented in Kuala Lumpur and the surrounding state of Selangor. The Directors also consider that the duration and long-term effect of the COVID-19 pandemic remain uncertain. In addition, uncertainties faced by the Group is exacerbated by the intensified United States — PRC trade tension which commenced since 2018 leading to (i) the unfavourable global trading environment to the Company; and (ii) intensified price competition of the Company's wire/cable harnesses and power supply cords assembled products. Moreover, the Company's overseas markets are also susceptible to similar trade tensions depending on the future evolution of United States — PRC dynamics in trade as well as other aspects.

Having considered the challenging operating environment faced by the Group and the uncertain economic outlook of the world, we remain cautious as to whether the Group will be able to improve its business performance and/or react and adapt in a timely manner in response to the ever-changing global economy. Given the above circumstances and the historical net losses recorded by the Group, the prospects of the Group is subject to challenges and there is no guarantee that the financial performance of the Group would be improved in the near future.

#### ***1.4 Dividends***

The Company has not declared any dividends or distribution to the Shareholders since its listing in May 2016 and, as disclosed in the Letter from the Board, the Company does not intend to declare any dividends or distribution during the Offer Period.

In view of the above, if the Scheme becomes effective and the Proposal is implemented, the Independent Shareholders who place a high priority on dividend income would have the opportunity to re-invest the proceeds from the Proposal in other listed companies that have higher historical dividend yields.

## **2. Information of the Offeror**

The Offeror is an investment holding company incorporated in the British Virgin Islands with limited liability. The Offeror is a direct wholly-owned subsidiary of New Universe, which in turn is a direct wholly-owned subsidiary of Perfect Asset. Mr. Lau, as the sole shareholder of Perfect Asset, is deemed to be interested in the Shares held by the Offeror.

As at the Latest Practicable Date, Mr. Lau was the sole director of the Offeror and Perfect Asset. Mr. Lau and Mr. Kan were the directors of New Universe and executive Directors.

As disclosed in the 2020 Annual Report, Mr. Lau joined the Group in April 2010 and his role and responsibility in the Group is corporate development and strategic planning. As further disclosed in the 2020 Annual Report, Mr. Lau has more than 18 years of experience in finance and accounting. He has been an associate member of the Hong Kong Institute of Certified Public Accountants since September 1997, a fellow member of the Association of Chartered Certified Accountants since July 2002, a fellow member of the Hong Kong Institute of Directors since August 2012 and a member and a fellow member of the Hong Kong Securities and Investment Institute since April 2000 and November 2015, respectively.

As advised by the management of the Company, Mr. Lau will not make another offer for the Company within 12 months from the date on which the Scheme is not approved or the Proposal otherwise lapses due to the restrictions under Rule 31.1 of the Takeovers Code.

## **3. Reasons for and benefits of the Proposal**

As disclosed in the section headed “9. REASONS FOR, AND BENEFITS OF, THE PROPOSAL” in the Explanatory Statement, the trading liquidity of the Shares has been at a relatively low level in recent years. The thin trading liquidity of the Shares represents that there may not be an efficient market for the Shareholders to timely execute trade orders without substantially affecting the price of the Shares. On the other hand, the price performance of the Shares has been declining in recent years despite the speculative trading activities resulting in significant fluctuation in the Share price shortly after the listing of the Shares. In particular, we noted that the closing price of the Shares as at Latest Practicable Date, being HK\$0.081 per Share, has dropped by approximately 84.7% as compared to the final offer price of the Shares of HK\$0.53 per Share upon listing on 18 May 2016. The continuous downward trend of the Share price and lack of interest from investors towards a GEM listed issuer have also made it difficult to reflect the Company’s fair value in the capital market.

Due to the above reasons, the Offeror considers that the Company’s current listing status may not be beneficial to the Company’s business and future growth. The Proposal, which entails the delisting of the Company, is expected to reduce the administrative costs and management resources associated with maintaining the Company’s listing status and compliance with regulatory requirements and, in turn, allows greater flexibility for the Offeror to manage the Group’s business or to explore other business opportunities. The implementation of the Proposal will also permit the Offeror and the Company to make strategic decisions free from regulatory constraints, the pressure of market expectations and share price fluctuations which arise from being a publicly listed company.

As discussed in the section headed “1.2 Financial information of the Group” above, the Group has continuously recorded net losses attributable to the Shareholders in the last three financial years. In view of the uncertainties in recent socio-economics which may further affect the operation and financial performance of the Group as discussed in the section headed “1.3 Prospects of the Group” above, there is no guarantee that the financial performance of the Group would be improved in the near future. The Proposal and the Scheme, if approved, represent an exit alternative for the public Shareholders to avoid such uncertainties from continuing to hold the Shares. Furthermore, we noted that the Company has not declared any dividends or distribution to the Shareholders since its listing in May 2016 and, as disclosed in the Letter from the Board, the Company does not intend to declare any dividends or distribution during the Offer Period.

Despite the fact that the Cancellation Price represents a discount to the latest audited consolidated net asset value per Share in the Company, the Offeror believes that the Cancellation Price represents a premium to the price at which the market had valued the Company. Having considered the above-mentioned (i) thin trading liquidity of the Shares, (ii) declining Share price performance; (iii) deteriorating financial performance of the Group’s existing business; and (iv) increasing level of uncertainties faced by the Group in its operations, we are of the view that the Proposal provides the Independent Shareholders an opportunity to realise their investments in the Company for cash at the Cancellation Price, and redeploy their capital into other investment opportunities that they may consider more attractive in the current market environment. Our analysis on the comparisons of the Cancellation Price is set out in the section headed “5. Cancellation Price comparisons” in this letter below.

Taking into account of the above, we concur with the Directors that the Proposal and the Scheme are in the interests of the Shareholders as a whole.

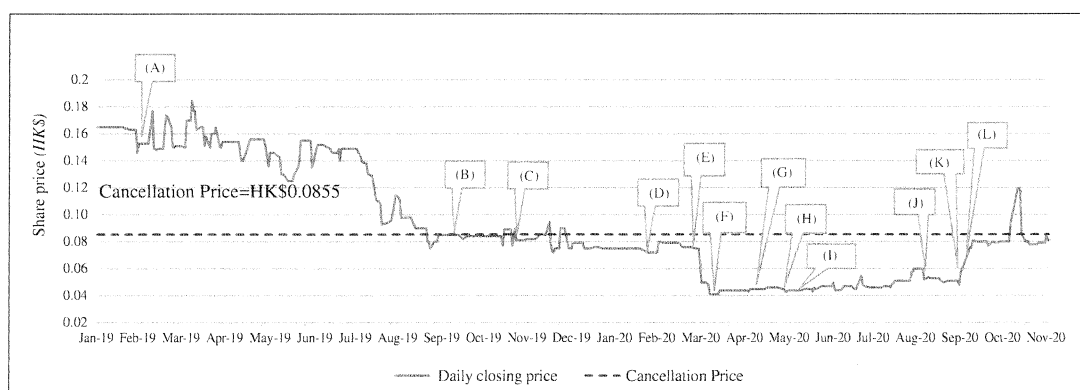
For details of the reasons for and benefits of the Proposal, please refer to the section headed “9. REASONS FOR, AND BENEFITS OF, THE PROPOSAL” in the Explanatory Statement.



## 4. Analysis of price performance and trading liquidity of the Shares

### 4.1 Historical price performance of the Shares

The following share price chart illustrates the daily closing price of the Shares as quoted on the Stock Exchange during the period from 1 January 2019 up to and including the Latest Practicable Date (the “**Review Period**”). The Review Period, which covers a period of almost two years, is considered as a reasonable period of time to provide a general overview on the recent price performance of the Shares for the purpose of this analysis:



Source: Website of the Stock Exchange

During the Review Period, the Company published a number of announcements (being labelled as (A) to (L) in the chart above) which are summarised below:

Event	Date of announcement	Description of the event	Relevant Share price (Note) (HK\$)
(A)	31 January 2019	Announcement of interim results for the six months ended 31 December 2018	0.153
(B)	19 September 2019	Announcement of annual results for the year ended 30 June 2019	0.085
(C)	29 October 2019	Announcement of profit warning	0.085
(D)	6 February 2020	Announcement of interim results for the six months ended 31 December 2019	0.072
(E)	2 March 2020	Voluntary announcement in relation to the influence of novel coronavirus on business operations	0.076
(F)	19 March 2020	Voluntary announcement in relation to the influence of novel coronavirus on business operations	0.041
(G)	17 April 2020	Announcement of business update and profit warning	0.045
(H)	4 May 2020	Voluntary announcement of further business update in relation to the influence of novel coronavirus	0.046

Event	Date of announcement	Description of the event	Relevant Share price <i>(Note)</i> (HK\$)
(I)	26 May 2020	Announcement of further business update in relation to the influence of novel coronavirus and extension of completion date in relation to the purchase of machinery	0.045
(J)	24 August 2020	Announcement of profit warning	0.053
(K)	15 September 2020	Announcement of annual results for the year ended 30 June 2020	0.057
(L)	22 September 2020	The Announcement	0.076

*Note:* The relevant Share prices represent the respective Share closing prices on the trading day immediately after the publication of the relevant announcements.

As shown in the chart above, the closing price of the Shares demonstrated an overall declining trend throughout the Review Period. During the Review Period, the highest and lowest closing prices of the Shares were HK\$0.185 per Share on 12 March 2019 and HK\$0.041 per Share from 20 March 2020 to 25 March 2020, respectively, with an average closing price of the Shares of approximately HK\$0.093 per Share.

The Cancellation Price is within the range of the highest and lowest closing prices of the Shares during the Review Period, and represents a discount of approximately 53.8% to the highest closing price of the Shares and a premium of approximately 108.5% over the lowest closing price of the Shares. We further noted that the Cancellation Price is generally higher than the daily closing prices of the Shares in the twelve-month period prior to the Latest Practicable Date, which accounted for 232 trading days out of 462 trading days during the Review Period.

The closing price of the Shares showed a short-term fluctuation at the beginning of the Review Period and peaked at HK\$0.185 per Share on 12 March 2019. Since then, the closing price of the Shares started to fall until it reached HK\$0.075 per Share on 30 August 2019. Afterwards, the closing price of the Shares maintained in a range between HK\$0.072 and HK\$0.09 per Share until 2 March 2020, on which the Company published a voluntary announcement in relation to the influence of novel coronavirus on its business operations. Shortly after the publication of such announcement, the closing price of the Shares oscillated downward sharply until it reached its trough at HK\$0.041 per Share on 20 March 2020, and subsequently fluctuated in a range between HK\$0.041 and HK\$0.06 per Share until the Last Trading Day.

After the publication of the Announcement on 22 September 2020, trading in the Shares resumed on 23 September 2020 and the closing price of the Shares surged from HK\$0.057 per Share on the Last Trading Day to HK\$0.076 per Share on 23 September 2020, representing an increase of approximately 33.3% as compared to the Last Trading Day. We consider such surge in the Share price as a market reaction towards the Proposal and may not be sustained if the Scheme is not approved or the Proposal otherwise lapses. The closing price of the Shares fluctuated between HK\$0.075 and HK\$0.12 per Share

afterwards and subsequently closed at HK\$0.081 per Share as at the Latest Practicable Date. Accordingly, the Cancellation Price represents a premium of approximately 5.6% over the closing price of the Shares as at the Latest Practicable Date.

#### **4.2 Trading liquidity of the Shares**

The following table sets out the monthly total trading volume of the Shares during the Review Period and the respective percentage of such total trading volume to the total number of the issued Shares and the total number of the issued Shares held by the public in each month/period:

<b>Month/Period</b>	<b>Monthly total trading volume of the Shares</b>	<b>Percentage to the total number of the issued Shares<sup>(1)</sup></b> <i>(Approx.)</i>	<b>Percentage to the total number of the issued Shares held by the public<sup>(2)</sup></b> <i>(Approx.)</i>
<b>2019</b>			
January	300,000	0.05%	0.20%
February	220,000	0.04%	0.15%
March	4,980,000	0.83%	3.32%
April	1,230,000	0.21%	0.82%
May	1,480,000	0.25%	0.99%
June	380,000	0.06%	0.25%
July	3,280,000	0.55%	2.19%
August	1,030,000	0.17%	0.69%
September	770,000	0.13%	0.51%
October	6,669,999	1.11%	4.45%
November	3,540,000	0.59%	2.36%
December	810,000	0.14%	0.54%
<b>2020</b>			
January	170,000	0.03%	0.11%
February	20,000	MIN	0.01%
March	560,000	0.09%	0.37%
April	550,000	0.09%	0.37%
May	2,640,000	0.44%	1.76%
June	790,000	0.13%	0.53%
July	2,430,000	0.41%	1.62%
August	1,170,000	0.20%	0.78%
September	20,050,000	3.34%	13.37%
October	26,230,000	4.37%	17.49%
November <sup>(3)</sup>	10,240,000	1.71%	6.83%

*Source: Website of the Stock Exchange*

*Notes:*

1. The calculation is based on the monthly total trading volume of the Shares divided by the total number of the Shares in issue at the end of each month/period.
2. The calculation is based on the monthly total trading volume of the Shares divided by the total number of the Shares held by the public at the end of each month/period.
3. For the period from 1 November 2020 up to the Latest Practicable Date

As illustrated in the table above, during the Review Period, the percentage of monthly total trading volume of the Shares to the total number of the issued Shares ranged from minimal to 4.37% and the percentage of monthly total trading volume of the Shares to the total number of the issued Shares held by the public ranged from approximately 0.01% to 17.49%. Furthermore, the average daily trading volume of the Shares amounted to approximately 193,810 Shares during the Review Period, representing only approximately 0.03% of the total number of the issued Shares as at the Latest Practicable Date. Other than the sudden increase in the trading volume of the Shares in September 2020 (in which the Announcement was published) and October 2020, the trading volume of the Shares maintained at a low level throughout the Review Period. We consider that such relatively high trading volume in September and October 2020 was possibly a result of market reaction towards the Proposal and may not be sustained if the Scheme is not approved or the Proposal otherwise lapses.

Given the generally thin trading liquidity of the Shares during the Review Period, the Independent Shareholders should note that there may not be sufficient liquidity of the Shares and an active market for them to dispose of a significant number of their Shares in the open market without exerting a downward impact on the trading price of the Shares. Hence, we consider that the Proposal provides an opportunity for the Independent Shareholders to realise their investments in the Company for cash at the Cancellation Price.

## **5. Cancellation Price comparisons**

As stated in the Letter from the Board, the Cancellation Price of HK\$0.0855 per Scheme Share represents:

- a premium of approximately 50.0% over the closing price of HK\$0.057 per Share as quoted on the Stock Exchange on the Last Trading Day;
- a premium of approximately 65.7% over the average closing price of approximately HK\$0.0516 per Share based on the daily closing prices as quoted on the Stock Exchange for the 5 trading days up to and including the Last Trading Day;
- a premium of approximately 67.0% over the average closing price of approximately HK\$0.0512 per Share based on the daily closing prices as quoted on the Stock Exchange for the 10 trading days up to and including the Last Trading Day;

- a premium of approximately 59.5% over the average closing price of approximately HK\$0.0536 per Share based on the daily closing prices as quoted on the Stock Exchange for the 30 trading days up to and including the Last Trading Day;
- a premium of approximately 69.0% over the average closing price of approximately HK\$0.0506 per Share based on the daily closing prices as quoted on the Stock Exchange for the 60 trading days up to and including the Last Trading Day;
- a premium of approximately 75.2% over the average closing price of approximately HK\$0.0488 per Share based on the daily closing prices as quoted on the Stock Exchange for the 90 trading days up to and including the Last Trading Day;
- a premium of approximately 79.2% over the average closing price of approximately HK\$0.0477 per Share based on the daily closing prices as quoted on the Stock Exchange for the 120 trading days up to and including the Last Trading Day;
- a premium of approximately 53.5% over the average closing price of approximately HK\$0.0557 per Share based on the daily closing prices as quoted on the Stock Exchange for the 180 trading days up to and including the Last Trading Day;
- a premium of approximately 5.6% over the closing price of HK\$0.081 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and
- a discount of approximately 52.5% to the audited consolidated net asset value per Share in the Company of approximately HK\$0.18 as at 30 June 2020, based on the audited net assets of the Group as stated in the consolidated statement of financial position of the Company included in its annual results announcement for the financial year ended 30 June 2020, and 600,000,000 Shares in issue as at the Announcement Date.

In summary, the Cancellation Price represents a significant premium ranging from approximately 50.0% to approximately 79.2% over the recent closing Share prices for different periods before the Last Trading Day, which is considered favourable to the Independent Shareholders given that there is no other better alternative than the Proposal available to them.

We also noted that the Cancellation Price represents a discount of approximately 52.5% to the audited consolidated net asset value per Share of approximately HK\$0.18 as at 30 June 2020. In assessing the fairness and reasonableness of such discount as represented by the

Cancellation Price, we have also reviewed the price performance of the Shares against the net asset value per Share from 1 February 2019 (being the first trading day immediately after the Company released its financial results during the Review Period) to the Last Trading Day.

Period <sup>(1)</sup>	Published net asset value per Share <sup>(2)</sup> HK\$	Closing price per Share			Discount to the net asset value per Share		
		Highest	Lowest	Average	Highest	Lowest	Average
		HK\$	HK\$	HK\$			
1 February 2019 to 19 September 2019	0.22	0.185	0.075	0.134	15.9%	65.9%	39.1%
20 September 2019 to 6 February 2020	0.20	0.095	0.072	0.080	52.5%	64.0%	60.0%
7 February 2020 to the Last Trading Day	0.18	0.080	0.041	0.052	55.6%	77.2%	71.1%
					<b>Simple average</b>		<b>56.7%</b>

Source: Website of the Stock Exchange

Notes:

1. The beginning day of the relevant period represents the first trading day immediately after the Company published its relevant results announcement during the Review Period.
2. The net asset value per Share is calculated based on the net asset value attributable to the Shareholders as extracted from the respective results announcement of the Company divided by the total number of the Shares in issue as at the respective period-end date.

As set out in the table above, during the period from 1 February 2019 to the Last Trading Day, the Shares have been trading at discounts to the then net asset value per Share at all times ranging from approximately 15.9% to approximately 77.2%, with an average of approximately 56.7%. The discount of approximately 52.5% to the latest audited consolidated net asset value per Share as represented by the Cancellation Price is therefore below the average discount as well as the historical discounts during the majority of the period. We also consider that there is no imminent sign of improvement on the aforesaid trend of discounts to the net asset value per Share represented by the Share price.

## 6. Comparable companies analysis

To further assess the fairness and reasonableness of the Cancellation Price, we attempt to carry out a comparable analysis with appropriate valuation multiples such as price-to-earnings ratio and price-to-book ratio, which are commonly used in assessing the value of a company determined by the open market as the data for calculating such ratios can be obtained fairly and directly from publicly available information.

As mentioned in the section headed “1.1 Background information of the Group” above, the Group is principally engaged in the manufacture and sale of wire/cable harnesses and power supply cords assembled products, with its manufacturing operations in Malaysia and the PRC; and trading of terminals, connectors and others. Accordingly, we have conducted a search for comparable companies which are (i) listed on the Stock Exchange; and (ii)

principally engaged in the manufacture and sale of power cords, cables, wires and wire harnesses with a majority (i.e. over 50%) of revenue generated from such business in their respective latest financial year. We have identified only one comparable company which we consider to be exhaustive based on these selection criteria, namely, Perennial International Limited (stock code: 725.HK) (“**Perennial**”).

Given that the Group recorded net loss and negative earnings before interest, tax, depreciation and amortisation for FY2020, price-to-earnings ratios are not applicable for comparison purpose. Alternatively, we have compared the price-to-sales ratio (“**P/S Ratio**”) and price-to-book ratio (“**P/B Ratio**”) of the Company implied by the Cancellation Price with those of Perennial. Details of our analysis are summarised in the table below:

<b>Company name (stock code)</b>	<b>Market capitalisation as at the Last Trading Day (HK\$'000)</b>	<b>P/S Ratio as at the Last Trading Day (times)</b>	<b>P/B Ratio as at the Last Trading Day (times)</b>
Perennial International Limited (725.HK)	131,312 <sup>(1)</sup>	0.44 <sup>(2)</sup>	0.24 <sup>(3)</sup>
The Company (8346.HK)	51,300 <sup>(4)</sup>	0.55 <sup>(5)</sup>	0.47 <sup>(6)</sup>

*Source: Website of the Stock Exchange*

*Notes:*

1. It is calculated based on the closing price per share of Perennial as at the Last Trading Day multiplied by the total number of its issued shares as at the Last Trading Day.
2. It is calculated based on the market capitalisation of Perennial as at the Last Trading Day divided by its audited revenue for the year as extracted from its latest published annual report.
3. It is calculated based on the market capitalisation of Perennial as at the Last Trading Day divided by the unaudited net asset value attributable to its shareholders as extracted from its latest published interim report.
4. It is calculated based on the Cancellation Price multiplied by the total number of issued Shares as at the Last Trading Day.
5. It is calculated based on the implied market capitalisation of the Company as at the Last Trading Day divided by its audited revenue for the year as extracted from the 2020 Annual Report.
6. It is calculated based on the implied market capitalisation of the Company as at the Last Trading Day divided by the audited net asset value attributable to the Shareholders as extracted from the 2020 Annual Report.

As shown in the table above, we noted that (i) the P/S Ratio of the Company implied by the Cancellation Price is higher than that of Perennial as at the Last Trading Day; and (ii) the P/B Ratio of the Company implied by the Cancellation Price is significantly higher than that of Perennial as at the Last Trading Day.

The above analysis provides an additional indicator that the Cancellation Price is favourable to the Independent Shareholders. Nevertheless, since there is only one identified comparable company being included in the above analysis, we have placed less weight on this factor in our overall analysis.

## 7. Privatisation precedents

We have also tried to identify successful privatisation proposals announced by other companies listed on the Stock Exchange for comparison purpose. To perform such analysis, we have searched on the website of the Stock Exchange for privatisation proposals announced during the Review Period which (i) were conducted by way of scheme of arrangement or general offer; (ii) involved cash cancellation consideration; and (iii) were approved (or, where applicable, required acceptance level were achieved) as at the Latest Practicable Date. Based on these selection criteria, we have identified 25 relevant precedents (the “**Privatisation Precedents**”). We consider that the Privatisation Precedents represent an exhaustive list of privatisation proposals satisfying the said criteria and reflect the pricing of successful privatisation proposals under recent market sentiments although the business and financial position of the subject companies vary and some aspects of pricing may be industry-specific.

Date of the announcement	Company name (stock code)	Premium/(Discount) of the cancellation price/offer price over/(to) the (average) closing price per share prior to the announcement of privatisation proposal <i>(Note 1)</i>								Premium/(Discount) of the cancellation price/offer price over/(to) the net asset value per share <i>(Note 2)</i>
		On the last trading day	For the last 5 trading days	For the last 10 trading days	For the last 30 trading days	For the last 60 trading days	For the last 90 trading days	For the last 120 trading days	For the last 180 trading days	
7 September 2020	Changshouhua Food Company Limited (1006.HK)	16.4%	22.2%	24.7%	43.2%	64.1%	65.8%	66.1%	59.3%	(38.5)%
29 July 2020	Xinghua Port Holdings Ltd. (1990.HK)	29.9%	31.6%	27.9%	58.4%	95.3%	127.6%	139.4%	144.2%	102.4%
8 July 2020	O-Net Technologies (Group) Limited (877.HK)	23.6%	24.7%	25.7%	24.6%	28.0%	34.3%	38.3%	43.2%	128.9%
2 July 2020	Vantage International (Holdings) Limited (15.HK)	80.0%	90.7%	103.6%	119.5%	114.8%	104.1%	94.0%	78.6%	(61.7)%
21 June 2020	China Baofeng (International) Limited (3966.HK)	27.5%	57.6%	61.5%	52.0%	42.9%	39.0%	36.8%	30.7%	(5.5)%
17 June 2020	Golden Meditech Holdings Limited (801.HK)	41.9%	50.9%	54.4%	60.0%	54.4%	39.7%	29.4%	22.2%	(33.2)%
12 June 2020	Jinmao (China) Hotel Investments and Management Limited (6139.HK)	30.4%	57.9%	72.7%	82.5%	86.8%	64.4%	50.0%	37.9%	81.1%



Date of the announcement	Company name (stock code)	Premium/(Discount) of the cancellation price/offer price over/(to) the (average) closing price per share prior to the announcement of privatisation proposal <i>(Note 1)</i>								Premium/(Discount) of the cancellation price/offer price over/(to) the net asset value per share <i>(Note 2)</i>
		On the last trading day	For the last 5 trading days	For the last 10 trading days	For the last 30 trading days	For the last 60 trading days	For the last 90 trading days	For the last 120 trading days	For the last 180 trading days	
5 June 2020	Capxon International Electronic Company Limited (469.HK)	79.1%	89.3%	94.2%	88.1%	88.1%	76.0%	67.1%	54.6%	(37.5)%
20 April 2020	Allied Properties (H.K.) Limited (56.HK)	34.3%	36.2%	40.2%	39.1%	33.3%	30.1%	28.2%	23.1%	(66.3)%
3 April 2020	Elec & Eltek International Company Limited (1151.HK)	70.5%	46.5%	46.8%	41.5%	41.1%	45.0%	47.4%	54.4%	3.1%
20 March 2020	Li & Fung Limited (494.HK)	150.0%	157.7%	135.9%	95.2%	72.7%	62.1%	57.0%	43.8%	8.2%
29 January 2020	Kingsley Edugroup Limited (8105.HK)	12.5%	8.4%	7.6%	4.3%	5.8%	5.4%	(1.8)%	(6.5)%	219.5%
20 January 2020	BBI Life Sciences Corporation (1035.HK)	16.3%	23.8%	31.4%	42.5%	46.1%	47.9%	55.7%	56.7%	98.9%
12 December 2019	Joyce Boutique Group Limited (647.HK)	91.8%	91.3%	100.0%	82.2%	62.7%	47.4%	40.0%	32.2%	19.9%
27 November 2019	China Agri-Industries Holdings Limited (606.HK)	34.1%	35.6%	40.9%	53.2%	64.7%	72.5%	72.6%	70.0%	(22.8)%
1 November 2019	Springland International Holdings Limited (1700.HK)	63.1%	67.9%	64.4%	56.8%	55.4%	53.2%	51.3%	48.6%	(18.2)%
20 October 2019	Dah Chong Hong Holdings Limited (1828.HK)	37.6%	37.6%	42.4%	54.8%	56.1%	54.2%	49.8%	41.2%	(28.2)%
3 October 2019	Huaneng Renewables Corporation Limited (958.HK)	18.7%	18.4%	18.3%	29.9%	40.3%	43.4%	44.1%	41.5%	(4.6)%
2 October 2019	AVIC International Holdings Limited (161.HK)	29.1%	43.8%	58.1%	81.3%	88.6%	100.2%	96.1%	92.1%	18.4%

Date of the announcement	Company name (stock code)	Premium/(Discount) of the cancellation price/offer price over/(to) the (average) closing price per share prior to the announcement of privatisation proposal (Note 1)								Premium/(Discount) of the cancellation price/offer price over/(to) the net asset value per share (Note 2)
		On the last trading day	For the last 5 trading days	For the last 10 trading days	For the last 30 trading days	For the last 60 trading days	For the last 90 trading days	For the last 120 trading days	For the last 180 trading days	
12 August 2019	TPV Technology Limited (903.HK)	41.4%	46.8%	50.8%	54.5%	75.0%	87.4%	104.0%	138.8%	(24.8)%
27 June 2019	Asia Satellite Telecommunications Holdings Limited (1135.HK)	23.4%	31.5%	33.4%	44.4%	50.4%	56.5%	63.5%	71.0%	10.0%
18 June 2019	C.P. Lotus Corporation (121.HK)	10.0%	10.2%	12.0%	29.4%	30.3%	26.5%	28.1%	21.9%	57.1%
14 June 2019	China Automation Group Limited (569.HK)	24.0%	27.3%	36.9%	47.8%	47.5%	46.6%	45.5%	42.5%	16.0%
4 April 2019	China Hengshi Foundation Company Limited (1197.HK)	10.6%	15.6%	16.8%	17.4%	19.1%	24.4%	25.6%	27.6%	42.1%
28 March 2019	China Power Clean Energy Development Company Limited (735.HK)	41.9%	54.9%	60.8%	78.1%	94.0%	101.9%	105.7%	88.6%	(35.1)%
	Maximum	150.0%	157.7%	135.9%	119.5%	114.8%	127.6%	139.4%	144.2%	219.5%
	Minimum	10.0%	8.4%	7.6%	4.3%	5.8%	5.4%	(1.8)%	(6.5)%	(66.3)%
	Average	41.5%	47.1%	50.5%	55.2%	58.3%	58.2%	57.4%	54.3%	17.2%
	The Proposal	50.0%	65.7%	67.0%	59.5%	69.0%	75.2%	79.2%	53.5%	(52.5)%

Source: Website of the Stock Exchange and Bloomberg

Notes:

1. Premiums/(discounts) shown above for certain trading periods are independently calculated as they are not disclosed in the respective scheme/composite documents and they are subject to rounding differences.
2. It represents the premium/(discount) of the cancellation price/offer price over/(to) the latest available net asset value per share attributable to the equity holders of the company quoted from in the respective privatisation documents without taking into account of any adjustments arising from, among others, revaluation of properties set out therein.

As shown in the table above, the premiums/(discounts) of the above Privatisation Precedents represented by the cancellation price/offer price over/(to) their respective closing share price on the last trading day prior to the publication of the relevant announcement and average closing share prices over 5-, 10-, 30-, 60-, 90-, 120- and 180-trading days (up to and including the last trading day) ranged from approximately 10.0% to 150.0%, 8.4% to 157.7%, 7.6% to 135.9%, 4.3% to 119.5%, 5.8% to 114.8%, 5.4% to 127.6%, (1.8)% to 139.4% and (6.5)% to 144.2% with averages of approximately 41.5%, 47.1%, 50.5%, 55.2%, 58.3%, 58.2%, 57.4% and 54.3%, respectively. Accordingly, the premiums represented by the Cancellation Price over the closing Share price on the Last Trading Day and average closing Share prices across all periods are within the range of the respective premiums and higher than the respective average premiums offered under the Privatisation Precedents for all the reference periods (except for the premium represented by the Cancellation Price over the average closing Share prices for the last 180 trading days which is close to the corresponding average premium of the Privatisation Precedents). As such, we consider that such premiums represented by the Cancellation Price are in line with the market practice and are fair and reasonable as far as the Independent Shareholders are concerned.

We also observed a wide range of premiums/discounts as represented by the cancellation price/offer price as compared to the respective net asset value attributable to the equity holders of the company under the respective Privatisation Precedents. The premiums/discounts derived by the Privatisation Precedents ranged from a discount of approximately 66.3% to a premium of approximately 219.5% with an average premium of approximately 17.2%. Accordingly, the discount to the net asset value per Share of approximately 52.5% represented by the Cancellation Price is within the aforesaid range of premiums over/discounts to the net asset value attributable to the equity holders of the companies under the Privatisation Precedents. We are of the view that such wide range of premiums/discounts could be driven by a number of factors including the business nature, scale and industries in which the companies operate and hence the Offeror exercised his absolute discretion to determine the Cancellation Price after taking into account, among others, the business, financial position and future prospects of the Group. Despite the fact that the discount to the latest net asset value per Share represented by the Cancellation Price is lower than the aforesaid average premium, as set out in the section headed "5. Cancellation Price comparisons" above, such discount is below the average discount as well as the historical discounts to the then net asset value per Share represented by the historical Share prices during the majority of the Review Period and there is no imminent sign of improvement on the aforesaid trend of discounts to the net asset value per Share represented by the Share price. Therefore, on balance, we consider the discount to the net asset value per Share represented by the Cancellation Price to be acceptable given the fact that the Proposal and the Scheme, if approved, represent a guaranteed exit for the Independent Shareholders to realise their investments in the Company at a premium over the recent Share prices.

## OPINION AND RECOMMENDATION

Having considered the above principal factors and reasons, in particular:

- (i) the Group has been loss-making over the past few years and with the uncertainties in recent socio-economics which may further impact the operation and financial performance of the Group, the business prospects of the Group is subject to challenges and there is no guarantee that the financial performance of the Group would be improved in the near future;
- (ii) the current GEM listing status of the Company may not be beneficial to its business and future growth and the delisting of the Company is expected to reduce the administrative costs and management resources associated with maintaining the Company's listing status and compliance with regulatory requirements;
- (iii) the Cancellation Price is within the range of the highest and lowest closing prices of the Shares during the Review Period and the Shares have been trading at a level which was generally below the Cancellation Price in the past twelve months prior to the Latest Practicable Date;
- (iv) the trading liquidity of the Shares was generally thin during the Review Period where the Independent Shareholders may find it difficult to dispose of a significant number of their Shares in the open market without exerting a downward impact on the trading price of the Shares;
- (v) the Cancellation Price represents a significant premium ranging from approximately 50.0% to approximately 79.2% over the recent closing Share prices for different periods before the Last Trading Day, which is considered favourable to the Independent Shareholders given that there is no other better alternative than the Proposal available to them;
- (vi) the premiums represented by the Cancellation Price over the closing Share price on the Last Trading Day and average closing Share prices across all periods are within the range of the respective premiums and higher than the respective average premiums offered under the Privatisation Precedents for all the reference periods (except for the premium represented by the Cancellation Price over the average closing Share prices for the last 180 trading days which is close to the corresponding average premium of the Privatisation Precedents), which suggests that such premiums represented by the Cancellation Price are in line with the market practice and are fair and reasonable as far as the Independent Shareholders are concerned;
- (vii) during the period from 1 February 2019 to the Last Trading Day, the Shares have been trading at discounts to the then net asset value per Share at all times ranging from approximately 15.9% to approximately 77.2% with an average of approximately 56.7% and the discount of approximately 52.5% to the latest audited consolidated net asset value per Share represented by the Cancellation Price is below such average discount while there is no imminent sign of improvement on the aforesaid trend of discounts to the net asset value per Share represented by the Share price and, taking

this into consideration, despite the fact that the discount to the latest net asset value per Share represented by the Cancellation Price is lower than the average premium over the net asset value per share derived by the Privatisation Precedents, we consider such discount to be acceptable; and

- (viii) in light of the above and also in view of the dividend payout history of the Company as discussed in the section headed “1.4 Dividends” above, we consider that the Proposal provides an opportunity for the Independent Shareholders to realise their investments in the Company for cash at the Cancellation Price and redeploy their capital into other investment opportunities that they may consider more attractive in the current market environment,

we are of the opinion that the terms of the Proposal (including the Cancellation Price) and the Scheme are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the Court Meeting and the EGM, respectively, to approve and implement the Scheme and the Proposal.

The Share price closed at HK\$0.081 per Share on the Latest Practicable Date which was below the Cancellation Price of HK\$0.0855 per Scheme Share. However, it is still possible that the Share price may exceed the Cancellation Price in the period up to 17 December 2020, being the expected last day for trading in the Shares on the Stock Exchange. As such, we would like to remind the Independent Shareholders to closely monitor the trading price and liquidity of the Shares during this period and, having regard to their own circumstances, consider selling their Shares in the open market if such sale proceeds, net of all transaction costs, would be higher than the net amount receivable under the Scheme.

Yours faithfully,  
For and on behalf of  
**TUS Corporate Finance Limited**



**Michael Ngai**  
*Managing Director*



**Clark Ngai**  
*Vice President*

*Mr. Michael Ngai is a licensed person registered with the Securities and Futures Commission of Hong Kong and a responsible officer of TUS Corporate Finance Limited to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO. He has over 15 years of experience in the finance and investment banking industry.*

*Mr. Clark Ngai is a licensed person registered with the Securities and Futures Commission of Hong Kong and a responsible officer of TUS Corporate Finance Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has over 10 years of experience in the finance and investment banking industry.*