



14 October 2019

*To: The independent board committee of Unisplendour Technology (Holdings) Limited*

Dear Sirs,

**UNCONDITIONAL MANDATORY CASH OFFER BY  
CHINA INTERNATIONAL CAPITAL CORPORATION HONG KONG SECURITIES  
LIMITED FOR AND ON BEHALF OF  
THE JOINT OFFERORS TO ACQUIRE ALL THE ISSUED SHARES IN  
UNISPLENDOUR TECHNOLOGY (HOLDINGS) LIMITED  
(OTHER THAN THOSE ALREADY OWNED AND/OR AGREED TO BE ACQUIRED  
BY THE JOINT OFFERORS AND PARTIES ACTING IN CONCERT WITH THEM)**

**INTRODUCTION**

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee in respect of the Offer, details of which are set out in the Composite Document dated 14 October 2019 jointly issued by the Company and the Joint Offerors to the Shareholders, of which this letter of advice forms part. Capitalised terms used in this letter of advice shall have the same meanings as defined in the Composite Document unless the context requires otherwise.

On 17 September 2019, the Vendor entered into the Share Purchase Agreement with Sino Xin Ding and Beijing Unis Capital, pursuant to which Sino Xin Ding conditionally agreed to acquire from the Vendor the Sale Shares (being an aggregate of 986,829,420 Shares, representing approximately 67.82% of the entire issued share capital of the Company as at the Latest Practicable Date) for a total consideration of HK\$990 million (equivalent to approximately HK\$1.00 per Sale Share). Completion has taken place on 26 September 2019.

Immediately after Completion, the Joint Offerors and parties acting in concert with them (including Shanghai SEMI Fund and Zhanxing Fund) are interested in 986,829,420 Shares, representing approximately 67.82% of the entire issued share capital of the Company as at the Latest Practicable Date. Accordingly, pursuant to Rule 26.1 of the Takeovers Code, the Joint Offerors are required to make an unconditional mandatory cash offer for all the issued Shares (other than those already owned and/or agreed to be acquired by the Joint Offerors and parties acting in concert with them (including Shanghai SEMI Fund and Zhanxing Fund)).

Other than the Sale Shares, the Vendor also holds the Convertible Bonds in an aggregate principal amount of HK\$148,000,000 convertible into 370,000,000 Shares at a conversion price of HK\$0.40 per Share. Apart from the aforementioned, the Company had no other outstanding securities, options, warrants or derivatives which are convertible into or which confer rights to require the issue of Shares and no other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) as at the Latest Practicable Date. Taking into account the 986,829,420 Shares that are already owned or agreed to be acquired by the Joint Offerors and parties acting in concert with them (including Shanghai SEMI Fund and Zhanxing Fund) and the Shares in relation to the Chen Irrevocable Undertaking, the RG Irrevocable Undertaking, the BTF Irrevocable Undertaking, the Sun East Irrevocable Undertaking, the Sum Win Irrevocable Undertaking and the Mind Seekers Irrevocable Undertaking, a total of 187,235,412 Shares are subject to the Offer.

Mr. Li Zhongxiang and Mr. Qi Lian, each being a non-executive Director, are both directors of Tsinghua Unigroup, which (i) indirectly controls 100% of the shares of the Vendor; and (ii) is an indirect shareholder of UNIC Capital, which in turn is an indirect shareholder of Sino Xin Ding. An Independent Board Committee which comprises all the remaining non-executive Directors, namely, Mr. Cui Yuzhi, Mr. Bao Yi and Mr. Ping Fan, has been established in accordance with Rule 2.1 and Rule 2.8 of the Takeovers Code to make 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. We, VBG Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee in this respect, and our opinion herein is solely for the assistance of the Independent Board Committee in connection with its consideration of the Offer pursuant to Rule 2.1 of the Takeovers Code. The appointment of VBG Capital as the Independent Financial Adviser has been approved by the Independent Board Committee.

## **OUR INDEPENDENCE**

As at the Latest Practicable Date, apart from the existing engagement in connection with the Offer, we confirm that we did not have any significant connection, business, financial or otherwise, with the Company and/or the Joint Offerors or the controlling shareholders of either of them within two years prior to the commencement of the Offer Period, of a kind reasonably likely to create, or create the perception of, a conflict of interest or reasonably likely to affect the objectivity of our advice. Save for the normal fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company and its subsidiaries or the Directors, chief executive or substantial shareholders (as defined in the Listing Rules) of the Company or any of their associates, the Joint Offerors or parties acting in concert with any of them. We consider ourselves independent to form our opinion in respect of the Offer.

## **BASIS OF OUR OPINION**

In formulating our opinion to the Independent Board Committee, we have relied on the statements, information, opinions and representations contained or referred to in the Composite Document and the information and representations as provided to us by the management of the Group and the Joint Offerors (where applicable). We have assumed that all information and representations that have been provided by the management of the Group and the Joint Offerors (where applicable), for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors and the Joint Offerors (where applicable) in the Composite Document were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Composite Document, or the reasonableness of the opinions expressed by the Company, the Joint Offerors, their respective advisers and/or management (where applicable), which have been provided to us. Our opinion is based on the management of the Group's and the Joint Offerors' representation and confirmation that there are no undisclosed private agreements/arrangements or implied understanding with anyone concerning the Offer. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules and Rule 2 of the Takeovers Code.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Composite Document (other than the information relating to the Joint Offerors and parties acting in concert with them (including Shanghai SEMI Fund and Zhanxing Fund, but excluding for this purpose, the Group)), and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Composite Document (other than the opinion expressed by the Joint Offerors or the directors of the Joint Offerors) have been arrived at after due and careful consideration and there are no other facts not contained in the Composite Document, the omission of which would make any statement contained in the Composite Document misleading.

The directors of each of the Joint Offerors jointly and severally accept full responsibility for the accuracy of the information contained in the Composite Document (other than the information relating to the Group), and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Composite Document (other than the opinion expressed by the Group or the Directors) have been arrived at after due and careful consideration and there are no other facts not contained in the Composite Document, the omission of which would make any statements contained in the Composite Document misleading.

We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Composite Document, save and except for this letter of advice. We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent investigation into the business and affairs of the Company, the Joint Offerors, the Warrantor or their respective shareholders, subsidiaries or associates (if applicable), nor have we considered the taxation implication on the Group or the Shareholders as a result of the Offer. The Company has been separately advised by its own professional advisers with respect to the Offer and the preparation of the Composite Document (other than this letter of advice).

We have assumed that the Offer will be consummated in accordance with the terms and conditions set forth in the Composite Document without any waiver, amendment, addition or delay of any terms or conditions. We have assumed that in connection with the receipt of all the necessary governmental, regulatory or other approvals and consents as required for the Offer, no delay, limitation, condition or restriction will be imposed that would have a material adverse effect on the contemplated benefits expected to be derived from the Offer. In addition, our opinion is necessarily based on the financial, market, economic, industry-specific and other conditions as they existed on, and the information made available to us as at the Latest Practicable Date.

Where information in this letter of advice has been extracted from published or otherwise publicly available sources, we have ensured that such information has been correctly and fairly extracted, reproduced or presented from the relevant sources while we did not conduct any independent investigation into the accuracy and completeness of such information.

Should there be any material changes to the information affecting our opinion after the Latest Practicable Date, Shareholders would be notified as soon as possible in compliance with Rule 9.1 of the Takeovers Code.

## **PRINCIPAL FACTORS AND REASONS CONSIDERED**

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

### **(1) Background and terms of the Offer**

CICC is, on behalf of the Joint Offerors and in compliance with the Takeovers Code, making the Offer to acquire all the issued Shares (other than those already owned and/or agreed to be acquired by the Joint Offerors and parties acting in concert with them (including Shanghai SEMI Fund and Zhanxing Fund)) on the following basis:

**For every Offer Share held . . . . . HK\$1.01 in cash**

The Offer Price of HK\$1.01 per Offer Share is determined by rounding up the price per Sale Share paid by the Joint Offerors to the nearest cent.

The Offer Shares to be acquired under the Offer shall be fully paid and free from any Encumbrance and together with all rights and entitlements attaching or accruing thereto including, without limitation, the right to receive all dividends and other distributions, if any, the record date of which is on or after the date on which the Offer is made (i.e. the date of despatch of the Composite Document).

The Company confirms that as at the Latest Practicable Date, (a) it had not declared any dividend, the record date of which falls on or after the date of the Composite Document; and (b) it did not have any intention to make, declare or pay any future dividend or make other distributions until the close of the Offer Period.

The Offer is unconditional in all respects and is not conditional upon acceptances being received in respect of a minimum number of Shares or any other conditions. The Offer will be extended to all Independent Shareholders in accordance with the Takeovers Code.

Acceptance of the Offer would be irrevocable and would not be capable of being withdrawn, subject to the provisions of the Takeovers Code.

As confirmed by the Directors, as at the Latest Practicable Date, the Company had 1,455,000,000 Shares in issue, and save for the said Shares in issue and the Convertible Bonds, the Company had no other outstanding securities, options, warrants or derivatives which are convertible into or which confer rights to require the issue of Shares and no other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) as at the Latest Practicable Date. Taking into account the 986,829,420 Shares that are already owned or acquired by the Joint Offerors and parties acting in concert with them (including Shanghai SEMI Fund and Zhanxing Fund) and the Shares in relation to the Chen Irrevocable Undertaking, the RG Irrevocable Undertaking, the BTF Irrevocable Undertaking, the Sun East Irrevocable Undertaking, the Sum Win Irrevocable Undertaking and the Mind Seekers Irrevocable Undertaking, a total of 187,235,412 Shares are subject to the Offer, and no offer will be made for the Convertible Bonds in light of the Vendor Irrevocable Undertaking and as all the outstanding Convertible Bonds are held by the Vendor.

## (2) Business and financial information on the Group

Set out below is a summary of the consolidated financial information on the Group for the six months ended 30 June 2019 and 2018 and the two years ended 31 December 2018 as extracted from the interim report of the Company for the six months ended 30 June 2019 (the “**2019 Interim Report**”) and the annual report of the Company for the year ended 31 December 2018 (the “**2018 Annual Report**”):

	For the six months ended 30 June		For the year ended 31 December	
	2019 <i>(unaudited)</i> HK\$'000	2018 <i>(unaudited)</i> HK\$'000	2018 <i>(audited)</i> HK\$'000	2017 <i>(audited)</i> HK\$'000
<b>Continuing operation (Note 1)</b>				
Revenue (Note 2)	95,777	30,549	71,430	246,029
- Production and sales of industrial products	92,745	104,742	181,497	195,989
- Securities investment	2,448	(75,394)	(112,682)	50,040
Gross profit/ (loss)	35,341	(42,268)	(56,562)	71,181
(Loss)/ profit for the period/ year (Note 3)	(4,118)	(77,437)	(122,600)	49,304

Notes:

- (1) *The finance lease and factoring business was terminated by the Group during the year ended 31 December 2018.*
- (2) *The total revenue of the Group may also include revenue from unallocated activities which was minimal and is hence not shown in this table.*
- (3) *Excluding the loss or profit (as the case may be) from the terminated operation.*

The Group is principally engaged in the SMT equipment manufacturing and related business and the securities investment business.

#### *SMT equipment manufacturing and related business*

As advised by the Directors, the SMT equipment manufacturing and related business is the core of the Group's development. With reference to the 2018 Annual Report, the Group has terminated the low-end businesses such as agent product sales since 2018 to concentrate resources on the research and development (R&D) and sale of self-manufactured SMT products. During 2018, the Group launched a number of new equipment featuring intelligence, high precision and high flexibility to meet the market demand, and offered various SMT solutions to cover a full range of hardware equipment such as the selective wave soldering machine, wave soldering machine, solder paste printer and dispenser, as well as the intelligent manufacturing management system. Despite the decrease in the total revenue of the production and sales of industrial products segment from approximately HK\$196.0 million in 2017 to approximately HK\$181.5 million in 2018 due to the aforesaid termination of agent product sales, leveraging on the introduction of new SMT equipment which are well-received by the market, the Group recorded sales revenue of approximately HK\$181.5 million from its own-brand SMT equipment manufacturing and related business for the year ended 31 December 2018, representing a significant growth of approximately 33.7% as compared to the sales revenue from its own-brand SMT equipment manufacturing and related business of approximately HK\$135.7 million for the year ended 31 December 2017. The SMT equipment manufacturing and related business also enjoyed a significant increase in gross profit margin from around 14% in 2017 to around 30% in 2018.

According to the Directors, during the first half of 2019, the PRC's export trade was adversely affected by the global economic uncertainties and the intensified China-US trade dispute, and the slower growth of the manufacturing industry. Business of the Group had been indirectly affected, with the Group's revenue from the SMT equipment manufacturing and related business decreasing from approximately HK\$104.7 million for the six months ended 30 June 2018 to approximately HK\$92.7 million for the six months ended 30 June 2019. Yet, benefiting from the continuous introduction of new SMT equipment and the adoption of effective cost control measures, the gross profit margin of the segment increased further to around 35% for the six months ended 30 June 2019 as compared to around 31% for the six months ended 30 June 2018 and around 11% for the six months ended 30 June 2017.

We have independently researched for various key figures to understand the overall performance of the PRC's electronic equipment industry, which would likely be affecting the Group as an industry participant, under the global economic uncertainties and the intensified China-US trade dispute. Based on the statistics released by the Ministry of Industry and Information Technology of the PRC, the total added-value output of China's electronic information manufacturing enterprises (with annual revenue of above RMB20 million) increased by approximately 13.1% in 2018 on a year-on-year basis as compared to 2017. The total value of export of China's electronic information manufacturing enterprises (with annual revenue of above RMB20 million) increased by approximately 9.8% in 2018 on a year-on-year basis as compared to 2017. The total turnover of China's electronic information manufacturing enterprises (with annual revenue of above RMB20 million) also increased by approximately 9.0% in 2018 on a year-on-year basis as compared to 2017. During the first half of 2019, in view of that the electronic equipment industry of the PRC relies on both domestic and overseas demand and hence the export trade, the industry was continued to be affected by the global economic uncertainties and the intensified China-US trade dispute resulting in slowdown of growth of the industry as a whole. Based on the latest statistics released by the Ministry of Industry and Information Technology of the PRC, in the first half of 2019, the total added-value output of China's electronic information manufacturing enterprises (with annual revenue of above RMB20 million) increased by approximately 9.6% as compared to the corresponding period of the prior year (that is lower than the year-on-year growth of approximately 13.1% in 2018); the total value of export of China's electronic information manufacturing enterprises (with annual revenue of above RMB20 million) increased by approximately 3.8% as compared to the corresponding period of the prior year (that is lower than the year-on-year growth of approximately 9.8% in 2018); while the total turnover of China's electronic information manufacturing enterprises (with annual revenue of above RMB20 million) increased by approximately 6.2% as compared to the corresponding period of the prior year (that is lower than the year-on-year growth of approximately 9.0% in 2018). Despite the slowdown of growth, as revealed by the above statistics, the electronic equipment industry of the PRC has still been able to maintain its overall growing momentum amidst the global economic uncertainties.

#### *Securities investment*

With regard to the securities investment business, as advised by the Directors, the Group focuses its investment on high-tech companies listed in Hong Kong, especially the upstream and downstream enterprises having synergy effect with the Group's core SMT equipment manufacturing and related business. In 2018, Hong Kong's stock market continued to fluctuate and declined after surging at the beginning of the year. With reference to the 2018 Annual Report, given the poor market sentiment, the Group's investment income was not satisfactory, with the segment recording a full-year significant loss of approximately HK\$112.7 million as compared to a profit of approximately HK\$50.0 million in 2017. Attributable to such significant loss, the total revenue of the Group from continuing operation shrank substantially by approximately 71.0% in 2018 as compared to 2017, and the Group suffered from net loss of approximately HK\$122.6 million in 2018.

For the six months ended 30 June 2019, the share price of the securities which the Group invested in rebounded, thus the securities investment segment recorded a profit of approximately HK\$2.4 million. As extracted from the 2019 Interim Report and the 2018 Annual Report, the respective performance of the Group's securities investment for the six months ended 30 June 2019 and the year ended 31 December 2018 are as follows:

Name of investee	Total investment gain/ (loss) for the six months ended 30 June 2019 <i>(unaudited)</i> <i>HK\$'000</i>	Total investment gain/ (loss) for the year ended 31 December 2018 <i>(audited)</i> <i>HK\$'000</i>
Semiconductor Manufacturing International Corporation (stock code: 981)	11,981	(43,195)
Gome Finance Technology Co., Ltd. (stock code: 628)	33	(138)
Guodian Technology & Environment Group Corporation Limited (stock code: 1296)	(5)	(245)
Legend Holdings Corporation (stock code: 3396)	(9,561)	(69,454)
SMIT Holdings Limited (stock code: 2239)	Not applicable as the relevant securities had <u>been disposed of in 2018</u>	350
<b>Total</b>	<b>2,448</b>	<b>(112,682)</b>

All in all, it is noted that the electronic equipment industry of the PRC has still been able to maintain its overall growing momentum amidst the global economic uncertainties and the Group's SMT equipment manufacturing and related business has to a certain extent resisted the adverse impact caused by the slowdown of growth of the PRC's electronic equipment industry. Owing to the persistent effort on brand building and introduction of new SMT equipment of the Group, the profitability of the SMT equipment manufacturing and related business has even been enhanced substantially from around 11% for the six months ended 30 June 2017 to around 35% for the six months ended 30 June 2019 notwithstanding the relatively unfavourable market environment. On the other hand, the Group's securities investment business may have shown signs of improvement as it recorded a profit of approximately HK\$2.4 million for the six months ended 30 June 2019 as compared to a full-year significant loss of approximately HK\$112.7 million in 2018. We are of the view that the Group's securities investment business would likely to be affected by the general



performance of the Hong Kong stock market which is vulnerable to different worldwide factors owing to its openness. Nonetheless, given the solid foundation laid by the SMT equipment manufacturing and related business as the core of the Group's development, the Group's future prospects as a whole remains sceptical optimistic.

### **(3) Information on the Joint Offerors**

To provide Independent Shareholders with basic information on the background of the Joint Offerors, set out below is the key information on the Joint Offerors as extracted from the "Letter from CICC" of the Composite Document. For more details in relation to the Joint Offerors, Shareholders may refer to the section "Information on the Joint Offerors" in the "Letter from CICC".

Sino Xin Ding, one of the Joint Offerors, is a company incorporated in Hong Kong with limited liability on 24 February 2017. It is established for the purposes of investment holding and is wholly-owned by Shanghai Qingxin, a company held as to approximately 50.1% by UNIC Capital, as to approximately 28.0% by Shanghai SEMI Fund and as to approximately 21.9% by Zhanxing Fund.

UNIC Capital, the other Joint Offeror, is a company established in the PRC with limited liability on 27 July 2016 and is principally engaged in investment holding.

### **(4) Intentions of the Joint Offerors in relation to the Group**

To provide Independent Shareholders with information on the intentions of the Joint Offerors in relation to the Group, set out below is the Joint Offerors' intentions on the Group's business and Board composition as extracted from the "Letter from CICC" of the Composite Document:

#### *The Group's business*

It is the Joint Offerors' intention to acquire a majority interest in the Company pursuant to the Share Purchase Agreement and the Offer. The intention of the Joint Offerors is that the Company's existing principal activities, namely the manufacturing of SMT equipment and related business will be maintained and that the Joint Offerors will assist the Company in reviewing its business operations and financial position to seek for opportunities for streamlining the Company's resources and business structure by way of disposing of certain businesses outside of the existing principal activities of the Company and for expansion into other semiconductor-related businesses. Notwithstanding the above, the Joint Offerors had not identified any investment or business opportunities, nor had they entered into any discussions or negotiations with any third parties regarding the injections of assets or business into, or disposals of assets or business of the Group as at the Latest Practicable Date.

The Joint Offerors have no intention to introduce major changes to the existing operation and business of the Group, including any redeployment of fixed assets other than those in its ordinary course of business. Save for the proposed changes to the composition of the Board as mentioned below, the Joint Offerors have no plan to terminate the employment of any other employees or other personnel of the Group or introduce any significant changes to the management of the Group

following completion of the Offer. However, subject to the results of the review regarding the business and financial position of the Group, the Joint Offerors reserve the right to make any changes that they deem necessary or appropriate to the Group's businesses and operations to increase the value of the Group.

#### *The Board composition*

As at the Latest Practicable date, the Board comprised three executive Directors, namely Mr. Zhang Yadong (Chairman), Mr. Xia Yuan (Chief Executive Officer) and Mr. Zheng Bo; two non-executive Directors, namely Mr. Li Zhongxiang (Vice Chairman) and Mr. Qi Lian; and three independent non-executive Directors, namely Mr. Cui Yuzhi, Mr. Bao Yi and Mr. Ping Fan.

In accordance with the Share Purchase Agreement, amongst the above existing Directors, Mr. Zhang Yadong (Chairman), Mr. Zheng Bo, Mr. Li Zhongxiang (Vice Chairman) and Mr. Qi Lian intend to resign at a date permitted under the Takeovers Code. The Joint Offerors intend to nominate new Directors after the close of the Offer and any such appointment will be made in compliance with the Takeovers Code and the Listing Rules. Please refer to the section headed "Proposed Change to the Board Composition of the Company" in the "Letter from CICC" for the biographical information of the new Directors proposed to be nominated by the Joint Offerors.

#### **(5) The Offer Price**

##### *Offer Price comparison*

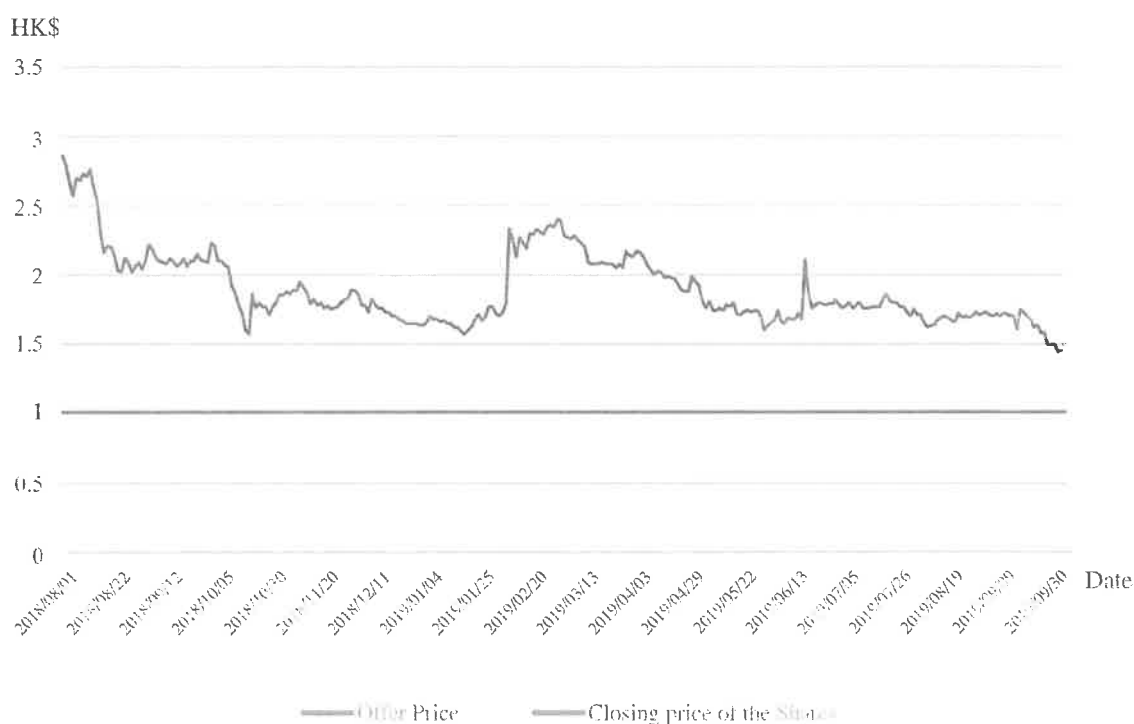
The Offer Price of HK\$1.01 per Offer Share represents:

- (a) a discount of approximately 30.34% to the closing price of HK\$1.450 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (b) a discount of approximately 40.59% to the closing price of HK\$1.700 per Share as quoted on the Stock Exchange on the date of the Joint Announcement;
- (c) a discount of approximately 41.00% to the average closing price of approximately HK\$1.712 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the date of the Joint Announcement;
- (d) a discount of approximately 40.41% to the average closing price of approximately HK\$1.695 per Share as quoted on the Stock Exchange for the last 30 consecutive trading days up to and including the date of the Joint Announcement;
- (e) a discount of approximately 41.85% to the average closing price of approximately HK\$1.737 per Share as quoted on the Stock Exchange for the last 90 consecutive trading days up to and including the date of the Joint Announcement; and
- (f) a premium of approximately 352.91% over the unaudited consolidated net asset value of approximately HK\$0.223 per Share as at 30 June 2019, the date to which the latest unaudited consolidated financial results of the Company were made up.

As illustrated above, the Offer Price represents deep discounts to the recent closing prices of the Shares on the Stock Exchange but premium over the latest unaudited net asset value per Share.

*Historical price performance of the Shares*

Set out below is a chart showing the movement of the closing prices of the Shares on the Stock Exchange within the period from 1 August 2018 up to the Latest Practicable Date (the “**Review Period**”), being the approximate one-year period to illustrate the general trend and level of movement of the market Share price up to the Latest Practicable Date:



Source: the Stock Exchange website ([www.hkex.com.hk](http://www.hkex.com.hk))

*Notes:*

- (1) Trading in the Shares was halted from 9.00 a.m. on 26 October 2018 to 1:00 p.m. on 29 October 2018 pending the release of an announcement pursuant to Rule 3.7 of the Takeovers Code.
- (2) Trading in the Shares was halted from 9.00 a.m. on 12 August 2019 to 9:00 a.m. on 13 August 2019 pending the release of an announcement pursuant to Rule 3.7 of the Takeovers Code.

For the sake of illustration, we divide the entire Review Period into the Pre-3.7 Announcement Period, i.e. (both days inclusive) from 1 August 2018 to 29 October 2018, being the date of the first announcement of the Company in relation to the Offer pursuant to Rule 3.7 of the Takeovers Code; (ii) the Pre-GO Announcement Period, i.e. (both days inclusive) from 30 October 2018 to 17 September 2019, being the date of the Joint Announcement; and (iii) the Post-GO Announcement Period, i.e. (both days inclusive) from 18 September 2019 to the Latest Practicable Date.

During the Pre-3.7 Announcement Period as well as the Pre-GO Announcement Period from August 2018 up to January 2019, the closing prices of the Shares on the Stock Exchange had been demonstrating an overall plummeting trend. The market Share price was at the highest of HK\$2.86 per Share on 1 August 2018, and dropped persistently to the lowest of HK\$1.57 per Share on 19 October 2018 and 22 January 2019, respectively. After reaching the floor, the closing prices of the Shares on the Stock Exchange rebounded and stayed at above HK\$2.00 per Share in general for three consecutive months from February 2019 to April 2019. We have enquired into the Directors regarding the possible reasons for such Share price recovery and the Directors advised us that they were not aware of any affirmative happenings which might have affected the Share price save for the publication of a few monthly progress announcements pursuant to Rule 3.7 of the Takeovers Code by the Company within the said months. Thereafter, the market Share prices moved generally downwards on the rest of the trading days during the Pre-GO Announcement Period but were still well above the Offer Price.

After publication of the Joint Announcement during the Post-GO Announcement Period, the closing prices of the Shares on the Stock Exchange had fluctuated between the range of HK\$1.45 per Share and HK\$1.75 per Share, and even so they were well above the Offer Price.

We noted that throughout the entire Review Period, despite times of fluctuations, the closing prices of the Shares on the Stock Exchange had been staying well above the Offer Price, with the lowest market Share price of HK\$1.45 per Share being at considerable premium of approximately 43.56% over the Offer Price. With this being the case, albeit the premium represented by the Offer Price over the unaudited net asset value per Share as at 30 June 2019 which is relatively remote as compared to the day-to-day market value of the Shares and is less representative given that the Group's principal business includes the sales of industrial products and securities investment, we are of the opinion that the Offer Price is unattractive and hence not fair and not reasonable.

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

The number of trading days, the average daily number of the Shares traded per month, and the respective percentages of the Shares' monthly trading volume as compared to (i) the total number of issued Shares held by the public as at the Latest Practicable Date; and (ii) the total number of issued Shares as at the Latest Practicable Date during the Review Period are tabulated as below:

Month	No. of trading days in each month	Average daily trading volume (the "Average Volume") <i>Number of Shares</i>	% of the Average	
			Volume to total number of issued Shares held by the public as at the Latest Practicable Date <i>(Note 3)</i> %	Volume to total number of issued Shares as at the Latest Practicable Date <i>(Note 4)</i> %
<i>2018</i>				
August	23	449,913	0.10	0.03
September	19	355,579	0.08	0.02
October <i>(Note 1)</i>	20	432,600	0.09	0.03
November	22	216,000	0.05	0.01
December	19	147,684	0.03	0.01

Month	No. of trading days in each month	Average daily trading volume (the "Average Volume") <i>Number of Shares</i>	% of the Average	% of the Average
			Volume to total number of issued Shares held by the public as at the Latest Practicable Date <i>(Note 3)</i> %	Volume to total number of issued Shares as at the Latest Practicable Date <i>(Note 4)</i> %
<i>2019</i>				
January	22	164,364	0.04	0.01
February	17	2,494,950	0.53	0.17
March	21	644,215	0.14	0.04
April	19	323,526	0.07	0.02
May	21	227,143	0.05	0.02
June	19	1,365,947	0.29	0.09
July	22	513,523	0.11	0.04
August ( <i>Note 2</i> )	21	288,095	0.06	0.02
September	21	524,286	0.11	0.04
2 October up to the Latest Practicable Date	7	299,429	0.06	0.02

Source: the Stock Exchange website ([www.hkex.com.hk](http://www.hkex.com.hk))

Notes:

- (1) Trading in the Shares was halted from 9.00 a.m. on 26 October 2018 to 1:00 p.m. on 29 October 2018 pending the release of an announcement pursuant to Rule 3.7 of the Takeovers Code.
- (2) Trading in the Shares was halted from 9.00 a.m. on 12 August 2019 to 9:00 a.m. on 13 August 2019 pending the release of an announcement pursuant to Rule 3.7 of the Takeovers Code.
- (3) Based on 468,170,580 Shares held by the public as at the Latest Practicable Date.
- (4) Based on 1,455,000,000 Shares in issue as at the Latest Practicable Date.

As depicted by the above table, trading in the Shares had been very thin (the Average Volume was generally below 0.50% of the total number of issued Shares held by the public as at the Latest Practicable Date) during the Review Period, save for February 2019. Taking into account that the Shares are highly illiquid, disposal of large block of Shares held by the Shareholders in the open market may trigger price slump of the Shares. We therefore anticipate that the Independent Shareholders (especially those with relatively sizeable shareholdings) may encounter difficulties in selling a significant number of Shares in the open market at a fixed cash price without disturbing the market price within a short period of time if the same trading pattern of the Shares persists during and shortly after the Offer Period. In such circumstance, we consider that the Offer provides an exit alternative for the Independent Shareholders who would like to realise their investments in the Shares.

Nevertheless, if any Independent Shareholders who would like to realise their investments in the Shares are able to dispose of their Shares in the open market and/or identify potential purchaser(s) to acquire their Shares at a price higher than the Offer Price, those Independent Shareholders may consider not accepting the Offer but selling their Shares in the open market and/or to such potential purchaser(s), as they wish to do so and as they think fit having regard to their own circumstances, in case the net proceeds from the sale of their Shares would exceed the net amount receivable under the Offer.

Furthermore, those Independent Shareholders who, after reading through the 2018 Annual Report, the 2019 Interim Report and the Composite Document, are optimistic about the future business and financial performance of the Group, may, having regard to their own circumstances, consider retaining all or any part of their Shares.

Accordingly, Independent Shareholders should closely monitor the market price and liquidity of the Shares during the Offer Period and carefully consider the relevant risks and uncertainties based on their individual risk preference and tolerance level. Those Independent Shareholders who decide to retain part or all of their investments in the Shares should also carefully monitor the financial performance of the Group as well as the intentions of the Joint Offerors in relation to the Company in the future, and the potential difficulties they may encounter in disposing of their investments in the Shares after the close of the Offer.

#### *Comparison with other comparable companies*

Given that the trading multiples analysis is a commonly adopted valuation method in the market, to further assess the fairness and reasonableness of the Offer Price, we have attempted to search for Hong Kong listed companies which are (i) engaged in similar line of business as the Group's core development, i.e. the electronic equipment business, and generate over 70% of their revenues from such business; and (ii) with market capitalisation of between HK\$1,000 million and HK\$4,000 million in view of that the market capitalisation of the Company was approximately HK\$2,100 million as at the Latest Practicable Date ((i) and (ii) together, the "Criteria"). From the Stock Exchange website, there is no Hong Kong listed company which met the Criteria and the result is exhaustive. For this reason, we have extended our search to include companies which are listed on the Shenzhen Stock Exchange and the Shanghai Stock Exchange. We identified one comparable listed company which met the Criteria (the "**Comparable Company**"), and we consider the Comparable Company to be fair and exhaustive sample as it represents the entire list of comparable companies which met the Criteria. Nevertheless, given the extremely limited sample size, the Comparable Company may or may not be representative. Moreover, it should be noted that (i) the operations and prospects of the Comparable Company are not the same as the Company and we have not conducted any investigation into the businesses, operations and prospects of the Comparable Company; and (ii) it is a common market perception that A shares are generally traded at a higher price than the shares on the Stock Exchange. As such, the trading multiples analysis as highlighted below serves merely as an additional reference for Independent Shareholders when considering the Offer and is for illustrative purpose only.

Since the Company had been loss-making in the latest full financial year, the price to earnings ratio is inapplicable. The following table sets out (i) the price to book ratio (“P/B”) of the Comparable Company based on its closing share price as at the Latest Practicable Date and its latest published financial information; and (ii) the implied P/B of the Company based on the Offer Price and its latest published financial information:

Company name (Stock code)	Principal business	Market capitalisation based on closing price of shares as at the Latest Practicable Date	
		P/B (times)	(HK\$ million)
Shenzhen JT Automation Equipment Co., Ltd. (300400.sz)	Principally engaged in the R&D, production, sales and service of special equipment. The main products can be divided into electronic whole machine assembly equipment, photoelectric module production special equipment and aviation special manufacturing equipment.	6.08	3,600 (Note)
<b>The Company</b>	<b>The SMT equipment manufacturing and related business as the core development.</b>	<b>4.54</b>	<b>2,100</b>

Source: the Stock Exchange website ([www.hkex.com.hk](http://www.hkex.com.hk)) and the website of Juchao Information\* (巨潮資訊網) ([www.cninfo.com.cn/new/index](http://www.cninfo.com.cn/new/index))

Note: The market capitalisation of Shenzhen JT Automation Equipment Co., Ltd. is expressed in RMB (converted into HK\$ using the exchange rate of RMB1: HK\$1.1132) as the company is listed on the Shenzhen Stock Exchange.

As shown by the above table, the P/B of the Comparable Company is higher than the implied P/B of the Company based on the Offer Price. Nevertheless, Independent Shareholders should note that, as mentioned above, (i) comparison with the book value of the Company is less representative given that the Group’s principal business includes the sales of industrial products and securities investment; and (ii) due to the extremely limited sample size, the Comparable Company may or may not be representative, thus the aforesaid P/B analysis is for illustrative purpose only and we have not drawn our opinion in respect of the terms of the Offer based on the relevant result.

## RECOMMENDATION

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

- (i) as demonstrated under the section headed “Business and financial information on the Group” of this letter of advice, it is noted that the electronic equipment industry of the PRC has still been able to maintain its overall growing momentum amidst the global economic uncertainties and the Group’s SMT equipment manufacturing and related business has to a certain extent resisted the adverse impact caused by the slowdown of growth of the PRC’s electronic equipment industry. Owing to the persistent effort on brand building and introduction of new SMT equipment of the Group, the profitability of the SMT equipment manufacturing and related business has even been enhanced substantially from around 11% for the six months ended 30 June 2017 to around 35% for the six months ended 30 June 2019 notwithstanding the relatively unfavourable market environment. On the other hand, the Group’s securities investment business may have shown signs of improvement as it recorded a profit of approximately HK\$2.4 million for the six months ended 30 June 2019 as compared to a full-year significant loss of approximately HK\$112.7 million in 2018. We are of the view that the Group’s securities investment business would likely to be affected by the general performance of the Hong Kong stock market which is vulnerable to different worldwide factors owing to its openness. Nonetheless, given the solid foundation laid by the SMT equipment manufacturing and related business as the core of the Group’s development, the Group’s future prospects as a whole remains sceptical optimistic;
- (ii) it is the intention of the Joint Offerors to maintain the Company’s existing manufacturing of SMT equipment and related business, the future outlook of which as mentioned in point (i) above is expected to be positive; and
- (iii) throughout the entire Review Period, despite times of fluctuations, the closing prices of the Shares on the Stock Exchange had been staying well above the Offer Price, with the lowest market Share price of HK\$1.45 per Share being at considerable premium of approximately 43.56% over the Offer Price. With this being the case, the Offer Price is unattractive,

we consider that the terms of the Offer (including the Offer Price) are not fair and not reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders not to accept the Offer.

**However, we would also like to remind the Independent Board Committee to remind and we also remind the Independent Shareholders to closely monitor the market price and liquidity of the Shares during the Offer Period and consider accepting the Offer, instead of selling their Shares in the open market, where possible, if the net amount receivable under the Offer exceeds the net proceeds from such sales.**



In addition, given that the Shares are highly illiquid, disposal of large block of Shares held by the Shareholders in the open market may trigger price slump of the Shares. We therefore anticipate that the Independent Shareholders (especially those with relatively sizeable shareholdings) may encounter difficulties in selling a significant number of Shares in the open market at a fixed cash price without disturbing the market price within a short period of time, if the same trading pattern of the Shares persists during and shortly after the Offer Period. In such circumstance, Independent Shareholders who believe that they will be unable to sell the Shares in the open market at a price higher than the Offer Price because of their size of the shareholding may consider the Offer as a fall back exit route for their investments in the Shares.

Those Independent Shareholders who decide to retain part or all of their investments in the Shares should carefully monitor the intentions of the Joint Offerors in relation to the Company in the future and the potential difficulties they may encounter in disposing of their investments in the Shares after the close of the Offer. Further terms and conditions of the Offer are set out in the "Letter from CICC" of and Appendix I to the Composite Document.

As different Independent Shareholders would have different investment criteria, objectives and/or circumstances, we would recommend any Independent Shareholders who may require advice in relation to any aspect of the Composite Document, or as to the action to be taken, to consult a licensed securities dealer, bank manager, solicitor, professional accountant, tax adviser or other professional adviser.

Yours faithfully,  
For and on behalf of  
**VBG Capital Limited**



**Doris Sing**  
*Deputy Managing Director*

*Ms. Doris Sing is a licensed person and responsible officer of VBG Capital Limited registered with the SFC to carry on Type 6 (advising on corporate finance) regulated activity under the SFO and has over 14 years of experience in corporate finance industry.*

*\* For illustrative purpose only*