
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this Scheme Document, the Scheme or as to the action to be taken, you should consult a licensed securities dealer or registered institution in securities, a bank manager, solicitor, professional accountant, or other professional adviser.

If you have sold or transferred all your shares in China Automation Group Limited, you should at once hand this Scheme Document and the accompanying forms of proxy to the purchaser or transferee or to the licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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BRIGHTEX ENTERPRISES LIMITED

(Incorporated in the British Virgin Islands with limited liability)

ASCENDENT AUTOMATION (CAYMAN) LIMITED

(Incorporated in the Cayman Islands with limited liability)



中國自動化

中國自動化集團有限公司

China Automation Group Limited

(HK stock code 0569)

(Incorporated in the Cayman Islands with limited liability)

**(1) PROPOSAL FOR THE PRIVATISATION OF
CHINA AUTOMATION GROUP LIMITED
BY THE JOINT OFFERORS BY WAY OF A SCHEME OF ARRANGEMENT
(UNDER SECTION 86 OF THE COMPANIES LAW)
AND
(2) PROPOSED WITHDRAWAL OF LISTING**

Financial Adviser to the Joint Offerors



SOMERLEY CAPITAL LIMITED

Independent Financial Adviser to the
Independent Board Committee of the Company



Unless the context requires otherwise, capitalized terms used in this Scheme Document (including this cover page) shall have the same meaning as those defined in the section headed “Definitions” in Part I. of this Scheme Document.

A letter from the Board is set out in Part IV. of this Scheme Document. A letter from the Independent Board Committee, containing its advice to the Independent Shareholders in connection with the Proposal and the Scheme is set out in Part V. of this Scheme Document. A letter from the Independent Financial Adviser to the Independent Board Committee, containing its advice to the Independent Board Committee in connection with the Proposal and the Scheme, is set out in Part VI. of this Scheme Document. An Explanatory Memorandum regarding the Scheme is set out in Part VII. of this Scheme Document.

The actions to be taken by the Shareholders are set out in Part II. of this Scheme Document.

Notices convening the Court Meeting to be held at 10:00 a.m. on Monday, 23 September 2019 and the EGM to be held at 10:30 a.m. on Monday, 23 September 2019 (or in the case of the EGM immediately after the conclusion or the adjournment of the Court Meeting) are set out in Appendix V. and Appendix VI. to this Scheme Document respectively. Whether or not you are able to attend the Court Meeting and/or the EGM or any adjournment thereof, you are strongly urged to complete and sign the enclosed pink form of proxy in respect of the Court Meeting and the enclosed white form of proxy in respect of the EGM, in accordance with the instructions printed thereon, and to lodge them at the office of the Share Registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong as soon as possible but in any event not later than the respective times and dates as stated under “Part II. – Actions to be Taken” of this Scheme Document. If the pink form of proxy is not so lodged, it may also be handed to the Chairman of the Court Meeting at the Court Meeting who shall have absolute discretion as to whether or not to accept it.

This Scheme Document is issued jointly by the Joint Offerors and the Company.

The English language texts of this Scheme Document and the accompanying forms of proxy shall prevail over their respective Chinese texts for the purpose of interpretation.

31 August 2019

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

NOTICE TO US INVESTORS

The Proposal is being made to cancel the securities of a Cayman Islands company by means of a scheme of arrangement provided for under the Companies Law. The financial information included in this Scheme Document (if any) has been prepared in accordance with International Financial Reporting Standards and thus may not be comparable to financial information of US companies or companies whose financial statements are prepared in accordance with generally accepted accounting principles in the United States.

A transaction effected by means of a scheme of arrangement is not subject to the tender offer rules of the US Securities Exchange Act of 1934, as amended. Accordingly, the Proposal is subject to the disclosure requirements and practices applicable in the Cayman Islands and Hong Kong to schemes of arrangement which differ from the disclosure and procedural requirements of the US tender offer rules.

The receipt of cash pursuant to the Proposal by a US holder of Scheme Shares as consideration for the cancellation of its Scheme Shares pursuant to the Scheme may be a taxable transaction for US federal income tax purposes and under applicable US state and local, as well as foreign and other tax laws. Each holder of Scheme Shares is urged to consult his independent professional adviser immediately regarding the tax consequences of the Proposal applicable to him.

It may be difficult for US holders of Scheme Shares to enforce their rights and claims arising out of the US federal securities laws, since the Joint Offerors and the Company are located in a country other than the United States, and some or all of their officers and directors may be residents of a country other than the United States. US holders of Scheme Shares may not be able to sue a non-US company or its officers or directors in a non-US court for violations of the US securities laws. Further, it may be difficult to compel a non-US company and its affiliates to subject themselves to a US court's judgement.

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In this Scheme Document, the following expressions have the meanings set out below unless the context requires otherwise:

“2018 Facility Agreement”	the facility agreement entered into between AACL, Araco, Brightex and Mr. Xuan on 17 December 2018
“AACL”	Ascendent Automation (Cayman) Limited, a direct wholly-owned subsidiary of ACP Fund II
“AACL Payment”	the possible payment to be made by AACL as described in the section headed “5. <i>The Scheme Consortium Agreement, the Pre-Delisting Shareholders’ Agreement, the Shareholders’ and Bondholders’ Agreement and the Sale and Purchase Agreement</i> ” in Part VII. – Explanatory Memorandum of this Scheme Document
“AACL Undertaking”	the undertaking given by AACL as described in the section headed “4. <i>Undertakings from AACL and AHCL</i> ” in Part VII. – Explanatory Memorandum of this Scheme Document
“ACP Fund I”	Ascendent Capital Partners I, L.P., holding 100% equity interest in AHCL
“ACP Fund II”	Ascendent Capital Partners II, L.P., a Cayman Islands exempted limited partnership
“acting in concert”	has the meaning ascribed to it in the Takeovers Code and “concert party” shall be construed accordingly
“Adjusted NAV of the Group”	the adjusted unaudited NAV of the Group as at 30 June 2019 as set out in the section headed “4. <i>Property Interests and Adjusted NAV of the Group</i> ” in Appendix I. to this Scheme Document
“affiliate”	in relation to an individual, that individual’s relatives (whether close or distant, including any spouse, child (including adopted child and step-child), parent or sibling of that individual), any person which is controlled by that individual and/or that individual’s relatives (whether close or distant and whether acting singly or together) (“ Controlled Entity ”) and any affiliate of a Controlled Entity; and in relation to any other person, any other person that (directly or indirectly) controls, is controlled by or is under common control with such person
“AHCL”	Ascendent Healthcare (Cayman) Ltd., an exempted company incorporated in the Cayman Islands with limited liability on 12 February 2014, wholly-owned by ACP Fund I and the holder of the Convertible Bonds

“AHCL Opt-out Undertaking”	the undertaking given by AHCL as described in the section headed “4. <i>Undertakings from AACL and AHCL – (b) The Convertible Bonds and the AHCL Opt-out Undertaking</i> ” in Part VII. – Explanatory Memorandum of this Scheme Document
“Amendment Agreement to the 2018 Facility Agreement”	the amendment agreement amending the 2018 Facility Agreement entered into between Araco, AACL, Mr. Xuan and Brightex on 14 June 2019 as described in the section headed “4. <i>Undertakings from AACL and AHCL – (a) The 2018 Facility Agreement, the Amendment Agreement to the 2018 Facility Agreement and the AACL Undertaking</i> ” in Part VII. – Explanatory Memorandum of this Scheme Document
“Announcement”	the announcement dated 14 June 2019, issued jointly by the Joint Offerors and the Company in relation to the Proposal
“Announcement Date”	14 June 2019, being the date of the Announcement
“Araco”	Araco Investment Limited, a company incorporated in the British Virgin Islands which is indirectly wholly-owned (through Brightex) by Mr. Xuan and is directly interested in 515,696,164 Shares (representing approximately 50.25% of the issued share capital of the Company) as at the Latest Practicable Date
“Ascendent Employee”	Zhou Haiying (周海英), an employee of Ascendent Investment Consulting (Shanghai) Co., Ltd. which is wholly-owned by Ascendent Capital Partners (Asia) Limited
“associates”	has the meaning ascribed to it under the Takeovers Code, unless otherwise defined
“Beneficial Owner”	any beneficial owner of Shares
“Board”	the board of directors of the Company
“Brightex”	Brightex Enterprises Limited, a company incorporated in the British Virgin Islands which is directly wholly-owned by Mr. Xuan and the immediate holding company of Araco and indirectly, through Araco, owns 515,696,164 Shares as at the Latest Practicable Date
“Cancellation Price”	the cancellation price of HK\$1.50 per Scheme Share payable in cash by the Joint Offerors to the Scheme Shareholders pursuant to the Scheme
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC

“CCASS Participant”	a person admitted to participate in CCASS as a participant, including an Investor Participant
“Companies Law”	the Companies Law (2018 Revision) of the Cayman Islands
“Company”	China Automation Group Limited, an exempted company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange (Stock code: 00569)
“Conditions”	the conditions to the implementation of the Proposal and the Scheme as described in the section headed “3. <i>Conditions of the Proposal and the Scheme</i> ” in Part VII. – Explanatory Memorandum of this Scheme Document
“Convertible Bonds”	convertible bonds in the principal amount of RMB675,588,000 issued by the Company to AHCL on 26 July 2017
“Court Meeting”	the meeting(s) of the holders of Scheme Shares (or of the classes of such holders) to be convened at the direction of the Grand Court at Regus Hong Kong Central Plaza, 35th Floor, Central Plaza, 18 Harbour Road, Wan Chai, Hong Kong at 10:00 a.m. on Monday, 23 September 2019 or any adjournment thereof, at which the Scheme (with or without modification) will be voted upon, notice of which is set out in Appendix V. to this Scheme Document
“Delisting”	the delisting of the Shares from the Main Board of the Stock Exchange
“Delisting Date”	the date on which the Company is delisted from the Main Board of the Stock Exchange
“Director(s)”	the director(s) of the Company
“Effective Date”	the date on which the Scheme, if approved at the Court Meeting(s) and sanctioned by the Grand Court, becomes effective in accordance with its terms and the Companies Law, being the date on which a copy of the order of the Grand Court sanctioning the Scheme and confirming the reduction of the issued share capital of the Company resulting from the cancellation of the Scheme Shares is delivered to the Registrar of Companies in the Cayman Islands for registration pursuant to section 86(3) of the Companies Law, and which is expected to be Thursday, 24 October 2019 (Cayman Islands time)

“Equity Securities”	means, with respect to any person, such person’s capital stock, membership interests, partnership interests, registered capital, joint venture or other ownership interests or any options, warrants or other securities that are directly or indirectly convertible into, or exercisable or exchangeable for, such capital stock, membership interests, partnership interests, registered capital, joint venture or other ownership interests (whether or not such derivative securities are issued by such person)
“Event of Default”	any circumstance, with respect to Brightex, Araco or Mr. Xuan only, constituting an event of default under any of Clause 17.6 (<i>Insolvency</i>), Clause 17.7 (<i>Insolvency Proceedings</i>), Clause 17.8 (<i>Creditors’ process</i>) and Clause 17.9 (<i>Failure to comply with final judgments</i>) of the Scheme Facility Agreement
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any delegate thereof
“EGM”	the extraordinary general meeting of the Company to be held at Regus Hong Kong Central Plaza, 35th Floor, Central Plaza, 18 Harbour Road, Wan Chai, Hong Kong at 10:30 a.m. on Monday, 23 September 2019 (or immediately after the Court Meeting convened on the same day and place shall have been concluded or adjourned), notice of which is set out in Appendix VI. to this Scheme Document, or any adjournment thereof
“Grand Court”	the Grand Court of the Cayman Islands
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee of the Company established by the Board to make a recommendation to the Independent Shareholders in respect of the Proposal and the Scheme
“Independent Financial Adviser” or “Elstone”	Elstone Capital Limited, a corporation licensed to carry out Type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser in respect of the Proposal and the Scheme appointed by the Company with the approval of the Independent Board Committee

“Independent Shareholder(s)”	Shareholder(s) other than the Joint Offerors and the Joint Offeror Concert Parties
“Initial Announcement”	the first announcement dated 3 May 2019 issued by the Company pursuant to, amongst others, Rule 3.7 of the Takeovers Code relating to the Proposal
“Investor Participant”	a person admitted to participate in CCASS as an investor participant
“Joint Offeror Concert Parties”	parties acting in concert or presumed to be acting in concert with the Joint Offerors under the definition of “acting in concert” under the Takeovers Code, including Araco, Mr. Xuan, AHCL and the Ascendent Employee (but excluding the Joint Offerors and the Group)
“Joint Offerors”	Brightex and AACL
“Last Trading Day”	2 May 2019, being the last trading day of Shares prior to the suspension of trading in the Shares on the Stock Exchange with effect from 1:00 p.m. on Thursday, 2 May 2019 pending the publication of the Initial Announcement
“Latest Practicable Date”	Wednesday, 28 August 2019, being the latest practicable date prior to the printing of this Scheme Document for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	31 October 2019 or such date as may be agreed by the Joint Offerors and the Company, or to the extent applicable, as the Grand Court may direct and, in all cases, as permitted by the Executive
“Meeting Record Date”	Monday, 23 September 2019, or such other time and date as shall have been announced to the Shareholders, being the record date for the purpose of determining the entitlement of the holders of Scheme Shares to attend and vote at the Court Meeting and the entitlement of the Shareholders to attend and vote at the EGM
“Mr. Xuan”	Mr. Xuan Rui Guo, the chairman of the Board and an executive Director
“NAV”	the consolidated net asset value attributable to shareholders of a group, as stated in its relevant latest published financial statements

“Offer Period”	means the period from 3 May 2019 (being the date of the Initial Announcement) to the Effective Date or the date on which the Scheme lapses or is withdrawn (whichever is later), both dates inclusive
“PRC”	the People’s Republic of China (for the purpose of this Scheme Document, excluding Hong Kong, the Macao Special Administrative Region and Taiwan)
“Petrochemical Business”	such term as defined in the section headed “ <i>12. Reasons for, and Benefits of, the Proposal</i> ” in Part VII. – Explanatory Memorandum of this Scheme Document
“Possible Disposal”	such term as defined in the section headed “ <i>12. Reasons for, and Benefits of, the Proposal</i> ” in Part VII. – Explanatory Memorandum of this Scheme Document
“Pre-Delisting Shareholders’ Agreement”	the shareholders’ agreement entered into among AACL, Araco and Brightex dated 24 April 2019 with effect from the date of such agreement to the Delisting Date as described in the section headed “ <i>5. The Scheme Consortium Agreement, the Pre-Delisting Shareholders’ Agreement, the Shareholders’ and Bondholders’ Agreement and the Sale and Purchase Agreement – The Pre-Delisting Shareholders’ Agreement</i> ” in Part VII. – Explanatory Memorandum of this Scheme Document
“Proposal”	the proposal for the privatisation of the Company by the Joint Offerors by way of the Scheme, and the withdrawal of the listing of the Shares from the Stock Exchange, on the terms and subject to the conditions set out in this Scheme Document
“Record Date”	Thursday, 24 October 2019, or such other date as shall have been announced to the Shareholders, being the record date for the purpose of determining the entitlements of the Scheme Shareholders to the Cancellation Price under the Scheme
“Registered Owners”	any owner of Shares (including without limitation a nominee, trustee, depositary or any other authorized custodian or third party) entered in the register of members of the Company
“Relevant Period”	the period commencing on 3 November 2018, being the date falling six months prior to 3 May 2019, being the commencement date of the Offer Period, up to and including the Latest Practicable Date
“RMB”	Renminbi, the lawful currency of the PRC

“Sale and Purchase Agreement”	the sale and purchase agreement entered into among AACL, Mr. Xuan, Araco and Brightex dated 14 June 2019 as described in the section headed “5. <i>The Scheme Consortium Agreement, the Pre-Delisting Shareholders’ Agreement, the Shareholders’ and Bondholders’ Agreement and the Sale and Purchase Agreement – The Sale and Purchase Agreement</i> ” in Part VII. – Explanatory Memorandum of this Scheme Document
“Scheme”	a scheme of arrangement under Section 86 of the Companies Law involving, among other matters, the cancellation of all of the Scheme Shares and the restoration of the issued share capital of the Company to the amount immediately before the cancellation of the Scheme Shares
“Scheme Consortium Agreement”	the scheme consortium agreement entered into among AACL, Araco, Mr. Xuan and Brightex dated 14 June 2019 as described in the section headed “5. <i>The Scheme Consortium Agreement, the Pre-Delisting Shareholders’ Agreement, the Shareholders’ and Bondholders’ Agreement And the Sale and Purchase Agreement – The Scheme Consortium Agreement</i> ” in Part VII. – Explanatory Memorandum of this Scheme Document
“Scheme Document”	this composite scheme document dated 31 August 2019 issued jointly by the Joint Offerors and the Company to the Shareholders, containing among other things, each of the letters, statements, appendices and notices in it
“Scheme Facility Agreement”	the facility agreement in the amount of Hong Kong dollars equivalent of US\$51 million entered into between AACL, Araco, Brightex and Mr. Xuan on 14 June 2019 which is intended to provide the funds necessary for the Scheme in accordance with its terms
“Scheme Share(s)”	Share(s) (other than those directly or indirectly held by the Joint Offerors and the Joint Offeror Concert Parties (excluding those held by the Ascendent Employee))
“Scheme Shareholder(s)”	registered holder(s) of the Scheme Shares as at the Record Date
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of par value HK\$0.01 each in the share capital of the Company

“Share Registrar”	Tricor Investor Services Limited, the Company’s branch share registrar in Hong Kong, at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong
“Shareholder(s)”	registered holder(s) of the Share(s)
“Shareholders’ and Bondholders’ Agreement”	the shareholders’ and bondholders’ agreement entered into among AACL, Araco, AHCL, Mr. Xuan, Brightex and the Company dated 14 June 2019 with effect from and after the Delisting Date as described in the section headed “5. <i>The Scheme Consortium Agreement, the Pre-Delisting Shareholders’ Agreement, the Shareholders’ and Bondholders’ Agreement and the Sale and Purchase Agreement – The Shareholders’ and Bondholders’ Agreement</i> ” in Part VII. – Explanatory Memorandum of this Scheme Document
“Somerley”	Somerley Capital Limited, a licensed corporation permitted under SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities, being the financial adviser to the Joint Offerors in respect of the Scheme
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers issued by the SFC
“US\$”	United States dollar, the lawful currency of the United States of America

For the purpose of this Scheme Document, and for illustrative purpose only, unless otherwise indicated, RMB is converted into HK\$ at the rate of 1.13785. Such conversion should not be construed as a representation that any amount has been, could have been, or may be, exchanged at this or any other rate.

All references in this Scheme Document to times and dates are references to Hong Kong times and dates, except as otherwise specified and other than references to the expected date of the Grand Court hearing of the petitions to sanction the Scheme and to confirm the capital reduction and the Effective Date, which are the relevant dates in the Cayman Islands. For reference only, Cayman Islands time is 13 hours behind Hong Kong time as at the date of this Scheme Document.

ACTIONS TO BE TAKEN BY SHAREHOLDERS

For the purpose of determining the entitlements of holders of Scheme Shares to attend and vote at the Court Meeting and Shareholders to attend and vote at the EGM, the register of members of the Company will be closed from Wednesday, 18 September 2019 to Monday, 23 September 2019 (both days inclusive) and during such period, no transfer of Shares will be effected. In order to qualify to vote at the Court Meeting and the EGM, all transfers accompanied by the relevant share certificates must be lodged with the Share Registrar at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong before 4:30 p.m. (Hong Kong time) on Tuesday, 17 September 2019.

A **pink** form of proxy for use at the Court Meeting and a **white** form of proxy for use at the EGM are enclosed with copies of this Scheme Document sent to Registered Owners. Subsequent purchasers of Scheme Shares will need to obtain the proxy forms from the transferor if he or she wishes to attend or vote at the Court Meeting and/or the EGM.

Whether or not you are able to attend the Court Meeting and/or the EGM, if you are a holder of Scheme Shares, we strongly urge you to complete and sign the enclosed **pink** form of proxy in respect of the Court Meeting, and if you are a Shareholder, we strongly urge you to complete and sign the enclosed **white** form of proxy in respect of the EGM, in accordance with the instructions printed thereon, and to lodge them at the office of the Share Registrar at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong. **In order to be valid, the pink form of proxy for use at the Court Meeting should be lodged not later than 10:00 a.m. (Hong Kong time) on Saturday, 21 September 2019 or be handed to the Chairman of the Court Meeting at the Court Meeting (who shall have absolute discretion as to whether or not to accept it), and the white form of proxy for use at the EGM should be lodged not later than 10:30 a.m. (Hong Kong time) on Saturday, 21 September 2019.** The completion and return of a form of proxy for the Court Meeting and/or the EGM will not preclude you from attending and voting in person at the relevant meeting. In such event, the returned form of proxy will be deemed to have been revoked.

If you do not appoint a proxy and you do not attend and vote at the Court Meeting and/or the EGM, you will still be bound by the outcome of the Court Meeting and the EGM if, among other things, the resolutions are passed by the requisite majorities of the holders of Scheme Shares or the holders of Shares (as the case may be). We therefore strongly urge you to attend and vote at the Court Meeting and/or the EGM in person or by proxy.

The Company and the Joint Offerors will make an announcement in relation to the results of the Court Meeting and the EGM no later than 7:00 p.m. on Monday, 23 September 2019. If all the resolutions are passed at those meetings, the Company will make further announcement(s) of the results of the hearing of the petitions to, among other things, sanction the Scheme by the Grand Court and, if the Scheme is sanctioned, the Record Date, the Effective Date and the date of withdrawal of the listing of the Shares on the Stock Exchange.

ACTIONS TO BE TAKEN BY HOLDERS THROUGH TRUST OR CCASS

The Company will not recognise any person as holding any Shares through any trust. If you are a Beneficial Owner whose Shares are held upon trust by, and registered in the name of, a Registered Owner (other than HKSCC Nominees Limited), you should contact the Registered Owner and provide the Registered Owner with instructions or make arrangements with the Registered Owner in relation to the manner in which your Shares should be voted at the Court Meeting and/or the EGM. Such instructions and/or arrangements should be given or made in advance of the deadline in respect of the Court Meeting and the EGM set by the Registered Owner in order to provide the Registered Owner with sufficient time to accurately complete his, her or its proxy and to submit it by the latest time for the lodgement of forms of proxy in respect of the Court Meeting and the EGM. To the extent that any Registered Owner requires instructions from or arrangements to be made with any Beneficial Owner at a particular date or time in advance of the latest time for the lodgment of forms of proxy in respect of the Court Meeting and the EGM, then any such Beneficial Owner should comply with the requirements of the Registered Owner.

If you are a Beneficial Owner whose Shares are deposited in CCASS and registered under the name of HKSCC Nominees Limited, you must, unless you are an Investor Participant, contact your broker, custodian, nominee or other relevant person who is, or has, in turn, deposited such Shares with, another CCASS Participant regarding voting instructions to be given to such persons if you wish to vote at the Court Meeting and/or at the EGM. You should contact your broker, custodian, nominee or other relevant person in advance of the deadline in respect of the Court Meeting and the EGM set by them, in order to provide such broker, custodian, nominee or other relevant person with sufficient time to provide HKSCC Nominees Limited with instructions or make arrangements with HKSCC Nominees Limited in relation to the manner in which the Shares of the Beneficial Owner should be voted at the Court Meeting and/or the EGM. The procedure for voting in respect of the Scheme by HKSCC Nominees Limited with respect to the Shares registered under the name of HKSCC Nominees Limited shall be in accordance with the “General Rules of CCASS” and the “CCASS Operational Procedures” in effect from time to time.

HKSCC Nominees Limited may also vote for and against the Scheme in accordance with instructions received from CCASS Participants. However, for the purpose of calculating the “majority in number”, each such CCASS Participant who instructs HKSCC Nominees Limited to vote in favour of the Scheme shall be counted for the “majority in number” as a single Shareholder voting in favour of the Scheme, and, if applicable, each such CCASS Participant who instructs HKSCC Nominees Limited to vote against the Scheme shall be counted for the “majority in number” as a single Shareholder voting against the Scheme. HKSCC Nominees Limited itself, as opposed to instructing CCASS Participants, shall not be counted as a Shareholder for the purpose of the calculation of the “majority in number”.

If you are a Beneficial Owner whose Shares are deposited in CCASS, you may also elect to become a Shareholder of record, and thereby have the right to attend and vote at the Court Meeting (if you are a holder of the Scheme Shares) and the EGM (as a Shareholder). You can become a Shareholder of record by withdrawing all or any of your Shares from CCASS and becoming a Registered Owner of such Shares. For withdrawal of Shares from CCASS and registration thereof, you will be required to pay to CCASS a withdrawal fee per board lot withdrawn, a registration fee for each share certificate issued, stamp duty on each transfer instrument and, if your Shares are held through a financial intermediary, any other relevant fees charged by your financial intermediary. You should contact your broker, custodian, nominee or other relevant person in advance of the latest time for lodging transfers of the Shares into your name so as to

qualify to attend and vote at the Court Meeting and the EGM, in order to provide such broker, custodian, nominee or other relevant person with sufficient time to withdraw the Shares from CCASS and register them in your name.

EXERCISE YOUR RIGHT TO VOTE

IF YOU ARE A SHAREHOLDER OR A BENEFICIAL OWNER, THE COMPANY AND THE JOINT OFFERORS STRONGLY ENCOURAGE YOU TO EXERCISE YOUR RIGHT TO VOTE OR GIVE INSTRUCTIONS TO THE RELEVANT REGISTERED OWNER TO VOTE IN PERSON OR BY PROXY AT THE COURT MEETING AND/OR AT THE EGM. IF YOU KEEP ANY SHARES IN A SHARE LENDING PROGRAM, WE STRONGLY URGE YOU TO RECALL ANY OUTSTANDING SHARES ON LOAN TO AVOID MARKET PARTICIPANTS USING BORROWED STOCK TO VOTE.

IF YOU ARE A BENEFICIAL OWNER WHOSE SHARES ARE DEPOSITED IN CCASS, WE ENCOURAGE YOU TO PROVIDE HKSCC NOMINEES LIMITED WITH INSTRUCTIONS OR MAKE ARRANGEMENTS WITH HKSCC NOMINEES LIMITED IN RELATION TO THE MANNER IN WHICH THOSE SHARES SHOULD BE VOTED AT THE COURT MEETING AND/OR AT THE EGM WITHOUT DELAY AND/OR WITHDRAWN FROM CCASS AND TRANSFERRED INTO YOUR NAME (AS DETAILED IN THE SECTION “ACTIONS TO BE TAKEN – ACTIONS TO BE TAKEN BY HOLDERS THROUGH TRUST OR CCASS” ABOVE).

IF YOU ARE A REGISTERED OWNER HOLDING SHARES ON BEHALF OF BENEFICIAL OWNERS, YOU SHOULD INFORM THE RELEVANT BENEFICIAL OWNERS ABOUT THE IMPORTANCE OF EXERCISING THEIR RIGHT TO VOTE.

IF YOU ARE IN ANY DOUBT AS TO THE ACTION TO BE TAKEN, YOU ARE ENCOURAGED TO CONSULT YOUR LICENSED SECURITIES DEALER, BANK MANAGER, SOLICITOR, PROFESSIONAL ACCOUNTANT OR OTHER PROFESSIONAL ADVISER.

Hong Kong Time

Date of despatch of this Scheme Document Saturday, 31 August 2019

Latest time for lodging transfers of Shares in order to
qualify for entitlement to attend and vote at the
Court Meeting and the EGM 4:30 p.m. on Tuesday,
17 September 2019

Register of members of the Company closed for
determination of entitlements of holders of Scheme Shares
to attend and vote at the Court Meeting and of
Shareholders to attend and vote at the EGM ^(Note 1) From Wednesday, 18 September 2019
to Monday, 23 September 2019
(both days inclusive)

Latest time for lodging forms of proxy in respect of ^(Note 2)

- Court Meeting 10:00 a.m. on Saturday,
21 September 2019
- EGM 10:30 a.m. on Saturday,
21 September 2019

Meeting Record Date Monday, 23 September 2019

Court Meeting ^(Notes 3 and 4) 10:00 a.m. on Monday,
23 September 2019

EGM ^(Notes 3 and 4) 10:30 a.m. on Monday,
23 September 2019
(or immediately after the conclusion or
adjournment of the Court Meeting)

Announcement of the results of the Court Meeting and
the EGM posted on the website of the Stock Exchange no later than 7:00 p.m. on Monday,
23 September 2019

Expected latest time for trading in the Shares on the Stock Exchange 4:00 p.m. on Thursday,
10 October 2019

Latest time for lodging transfers of Shares in order to
qualify for entitlements under the Scheme 4:30 p.m. on Thursday,
17 October 2019

Register of members of the Company closed for determining entitlements to qualify under the Scheme ^(Note 5) From Friday, 18 October 2019 onwards

Grand Court hearing of the petitions to sanction the Scheme and to confirm the capital reduction Tuesday, 22 October 2019 (Cayman Islands time)

Announcement of the results of the Grand Court hearing of the petitions to sanction the Scheme and to confirm the capital reduction, the expected Effective Date and the expected date of withdrawal of listing of Shares on the Stock Exchange Thursday, 24 October 2019

Record Date Thursday, 24 October 2019

Effective Date ^(Note 6) Thursday, 24 October 2019 (Cayman Islands time)

Announcement of the Effective Date and the withdrawal of the listing of the Shares on the Stock Exchange Friday, 25 October 2019

Withdrawal of the listing of Shares on the Stock Exchange becomes effective ^(Note 7) 4:00 p.m. on Monday, 28 October 2019

Latest time to despatch cheques for cash payment under the Scheme ^(Note 8) on or before Monday, 4 November 2019

Shareholders should note that the above timetable is subject to change. Further announcement(s) will be made in the event that there is any change.

Notes:

- (1) The register of members of the Company will be closed during such period for the purpose of determining the entitlements of the holders of Scheme Shares to attend and vote at the Court Meeting and of the Shareholders to attend and vote at the EGM. This book closure period is not for determining entitlements under the Scheme.
- (2) Forms of proxy should be lodged with the office of the Share Registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong as soon as possible and in any event no later than the times and date(s) stated above. In order to be valid, the **pink** form of proxy for the Court Meeting and the **white** form of proxy for the EGM must be lodged no later than the latest times and date(s) stated above. Completion and return of a form of proxy for the Court Meeting or the EGM will not preclude a holder of Scheme Shares and a Shareholder, respectively, from attending the relevant meeting and voting in person. In such event, the returned form of proxy will be deemed to have been revoked. If the **pink** form of proxy is not so lodged, it may also be handed to the Chairman of the Court Meeting at the Court Meeting who shall have absolute discretion as to whether or not to accept it.

- (3) The Court Meeting and the EGM will be held at Regus Hong Kong Central Plaza, 35th Floor, Central Plaza, 18 Harbour Road, Wan Chai, Hong Kong at the times and date specified above. Please see the notice of Court Meeting set out in Appendix V. to this Scheme Document and the notice of EGM set out in Appendix VI. to this Scheme Document for details.
- (4) In the event that a tropical cyclone warning signal no. 8 or above is hoisted or a black rainstorm warning signal is in force at 8:00 a.m. on Monday, 23 September 2019, the Court Meeting and the EGM will be adjourned to Wednesday, 25 September 2019 at 10:00 a.m. and 10:30 a.m. (or immediately after the Court Meeting shall have been concluded or adjourned) respectively, or at a time on an alternative day to be announced that falls within fourteen days of the original date scheduled for the Court Meeting and the EGM. You may call the hotline at +852 2598 0050 during business hours from 9:00 a.m. to 5:00 p.m. on Monday to Friday, excluding public holidays or visit the website of the Company at www.cag.com.hk for details of alternative meeting arrangements. The Court Meeting and the EGM will be held as scheduled even when a tropical cyclone warning signal no. 3 or below is hoisted or an amber or red rainstorm warning signal is in force.
- You should make your own decision as to whether you would attend the Court Meeting and the EGM under bad weather conditions bearing in mind your own situation and if you should choose to do so, you are advised to exercise care and caution.
- (5) The register of members of the Company will be closed as from such time and on such date for the purpose of determining Scheme Shareholders who are qualified for entitlements under the Scheme.
- (6) The Scheme shall become effective upon all the Conditions set out in the paragraph headed “3. *Conditions of the Proposal and the Scheme*” in Part VII. – Explanatory Memorandum of this Scheme Document having been fulfilled or (to the extent permitted) waived (as the case may be).
- (7) If the Proposal becomes unconditional and the Scheme becomes effective, it is expected that the listing of the Shares on the Stock Exchange will be withdrawn at 4:00 p.m. on Monday, 28 October 2019.
- (8) Cheques for cash payment under the Scheme will be despatched by ordinary post within seven (7) business days (as defined under the Takeovers Code) from the Effective Date.



中國自動化集團有限公司

China Automation Group Limited

(HK stock code 0569)

(Incorporated in the Cayman Islands with limited liability)

Directors:

Executive Directors

Mr. Xuan Rui Guo (*Chairman*)

Mr. Wang Chuensheng

Independent Non-executive Directors

Mr. Wang Tai Wen

Mr. Ng Wing Fai

Mr. Zhang Xin Zhi

Registered office:

Cricket Square, Hutchins Drive

P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

Principal place of business

in Hong Kong:

Unit 3205B-3206

32nd Floor, Office Tower

Convention Plaza

1 Harbour Road

Wanchai, Hong Kong

31 August 2019

To the Shareholders,

Dear Sir or Madam,

**(1) PROPOSAL FOR THE PRIVATISATION OF
CHINA AUTOMATION GROUP LIMITED
BY THE JOINT OFFERORS BY WAY OF A SCHEME OF ARRANGEMENT
(UNDER SECTION 86 OF THE COMPANIES LAW)
AND
(2) PROPOSED WITHDRAWAL OF LISTING**

INTRODUCTION

On 14 June 2019, the Joint Offerors requested the Board to put forward a proposal to the holders of the Scheme Shares for the privatisation of the Company by way of a scheme of arrangement under Section 86 of the Companies Law involving the cancellation of the Scheme Shares and, in consideration thereof, the payment to the Scheme Shareholders of the Cancellation Price in cash for each Scheme Share, and the withdrawal of the listing of the Shares on the Stock Exchange.

The purpose of this Scheme Document is to provide you with further information regarding the Proposal, the Scheme and the expected timetable and to give you notice of the Court Meeting and the EGM (together with proxy forms in relation thereto). Your attention is also drawn to (i) the letter from the Independent Board Committee set out in Part V. of this Scheme Document; (ii) the letter from Elstone,

being the Independent Financial Adviser, set out in Part VI. of this Scheme Document; (iii) the Explanatory Memorandum set out in Part VII. of this Scheme Document; and (iv) the terms of the Scheme set out in Appendix IV. to this Scheme Document.

TERMS OF THE PROPOSAL

Cancellation Price

Under the Scheme, the Scheme Shareholders will receive from the Joint Offerors the Cancellation Price of HK\$1.50 in cash for each Scheme Share as consideration for the cancellation of the Scheme Shares held as at the Effective Date.

Comparison of value

The Cancellation Price of HK\$1.50 per Scheme Share represents:

- a premium of approximately 11.94% over the closing price of HK\$1.340 per Share as quoted on 13 June 2019, being the last trading day of the Shares prior to the Announcement Date;
- a premium of approximately 23.97% over the closing price of HK\$1.210 per Share as quoted on the Stock Exchange on the Last Trading Day;
- a premium of approximately 36.86% over the average closing price of approximately HK\$1.096 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 47.78% over the average closing price of approximately HK\$1.015 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 47.49% over the average closing price of approximately HK\$1.017 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 46.63% over the average closing price of approximately HK\$1.023 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 45.49% over the average closing price of approximately HK\$1.031 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 42.45% over the average closing price of approximately HK\$1.053 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 discount of approximately 1.38% to the audited net asset value of the Company per Share of approximately RMB1.337 (equivalent to approximately HK\$1.521) as at 31 December 2018, based on the 1,026,263,729 Shares in issue as at the Latest Practicable Date;
- a premium of approximately 16.01% over the audited equity attributable to owners of the Company per Share of approximately RMB1.136 (equivalent to approximately HK\$1.293) as at 31 December 2018, based on the 1,026,263,729 Shares in issue as at the Latest Practicable Date;
- a premium of approximately 16.92% over the Adjusted NAV of the Group per Share of approximately RMB1.1275 (equivalent to approximately HK\$1.2829) as at 30 June 2019, based on the 1,026,263,729 Shares in issue as at the Latest Practicable Date; and
- a premium of approximately 7.14% over the closing price of HK\$1.400 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

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 trading multiples of comparable companies listed on the Stock Exchange and with reference to other privatization transactions in Hong Kong in recent years.

Conditions of the Proposal and the Scheme

Your attention is drawn to the section headed “3. *Conditions of the Proposal and the Scheme*” in Part VII. – Explanatory Memorandum of this Scheme Document.

Undertakings from AACL and AHCL

(a) *The 2018 Facility Agreement, the Amendment Agreement to the 2018 Facility Agreement and the AACL Undertaking*

On 17 December 2018, AACL (as lender), Araco (as borrower), Brightex (as corporate guarantor) and Mr. Xuan (as personal guarantor) entered into the 2018 Facility Agreement pursuant to which, AACL advanced a loan in the principal amount of HK\$360,000,000 (the “**Loan**”) to Araco. On 3 January 2019, Araco executed a share charge to create a charge over 300,000,000 Shares (the “**Charged Shares**”) owned by it in favour of AACL as security.

Pursuant to the 2018 Facility Agreement, AACL has the right to exchange (the “**Exchange Right**”) in full the outstanding loan amount for the Charged Shares at the exchange price of HK\$1.20 per Share (subject to adjustment) at any time after the utilisation date of the Loan but on or before the final exchange date (i.e. 31 December 2023), and such Exchange Right may be exercised on one occasion. If AACL does not exercise the Exchange Right before 31 December 2023, Araco shall repay the Loan together with all outstanding amounts under the finance documents (including the 2018 Facility Agreement) in full on 31 December 2023.

On 14 June 2019, Araco, AACL, Mr. Xuan and Brightex entered into the Amendment Agreement to the 2018 Facility Agreement to amend, among other things, (a) the exchange price from HK\$1.20 per Share (subject to adjustment) to HK\$0.9 per Share, and (b) the interest rate from zero to 5.8% per annum. If (i) on or prior to the Effective Date, Brightex and/or Mr. Xuan has not deposited an amount equal to US\$18,000,000 into a bank account designated by AACL; or (ii) in the event when there exists any circumstances constituting an Event of Default (to the extent relating to bankruptcy/insolvency of Araco, Mr. Xuan and Brightex only) of the Scheme Facility Agreement, and the purchase price is not paid in accordance with the Sale and Purchase Agreement, in either case, the Amendment Agreement to the 2018 Facility Agreement shall become effective upon issuance of a notice declaring effectiveness of the Amendment Agreement to the 2018 Facility Agreement by AACL. The purpose of the deposit of US\$18,000,000 is to reduce AACL's outstanding capital investment in the Company. Regardless of whether US\$18,000,000 is deposited with AACL pursuant to the Amendment Agreement to the 2018 Facility Agreement, AACL's commitment under the Scheme Facility Agreement will not be affected. As the amendments set out in the Amendment Agreement to the 2018 Facility Agreement relate primarily to the adjustment of the exchange price and the interest payable under the 2018 Facility Agreement, the amendments therein do not affect the terms of the Scheme.

As at the Latest Practicable Date, the amount of loan utilized by Araco under the 2018 Facility Agreement is HK\$360,000,000.

AACL has provided an undertaking that it will not transfer the Exchange Right to any party until after the Effective Date.

(b) The Convertible Bonds and the AHCL Opt-out Undertaking

On 26 July 2017, the Company issued Convertible Bonds in the principal amount of RMB675,588,000 to AHCL, which, based on the initial conversion price of RMB1.0640 (equivalent to approximately HK\$1.21) per share, can be converted into 634,951,127 Shares. As at the Latest Practicable Date, AHCL has not exercised its conversion rights under the Convertible Bonds.

AHCL is an exempted company incorporated in the Cayman Islands with limited liability on 12 February 2014 and is wholly-owned by ACP Fund I. Both AHCL and AACL are ultimately controlled by Mr. Meng Liang. AHCL is a party acting in concert with the Joint Offerors. AHCL has provided an undertaking opting out of the Scheme by waiving its right to receive offer under Rule 13 of the Takeovers Code and it will not exercise its conversion rights under the Convertible Bonds and will not transfer the Convertible Bonds to any party and will not take any action which will enable any other party to convert the Convertible Bonds until after the Effective Date.

The Scheme Consortium Agreement, the Pre-Delisting Shareholders' Agreement, the Shareholders' and Bondholders' Agreement and the Sale and Purchase Agreement*(a) The Scheme Consortium Agreement*

On 14 June 2019 (after trading hours), AACL, Araco, Mr. Xuan and Brightex entered into the Scheme Consortium Agreement, pursuant to which they have agreed, among other things, that:

- 1) AACL (as financier) agrees to provide financing for up to 100% of the consideration required to be paid by Brightex to the Scheme Shareholders pursuant to the Scheme, the issued share capital of the Company will, on the Effective Date, be reduced by the cancellation of the Scheme Shares, but will be increased to its former amount prior to the cancellation of the Scheme Shares by the issue at par to Brightex, credited as fully paid, of the same number of new Shares as the number of Scheme Shares cancelled;
- 2) as further consideration for AACL making available the loan under the Scheme Facility Agreement, Araco, AACL, Mr. Xuan and Brightex have entered into the Amendment Agreement to the 2018 Facility Agreement at the same time as entry of the Scheme Facility Agreement. If (i) on or prior to the Effective Date, Brightex and/or Mr. Xuan has not deposited an amount equal to US\$18,000,000 into a bank account designated by AACL or (ii) in the event when there exists any circumstances constituting an Event of Default (to the extent relating to bankruptcy/insolvency of Araco, Mr. Xuan and Brightex only) of the Scheme Facility Agreement, and the purchase price is not paid in accordance with the Sale and Purchase Agreement, in either case, the Amendment Agreement to the 2018 Facility Agreement shall become effective upon issuance of a notice declaring effectiveness of the Amendment Agreement to the 2018 Facility Agreement by AACL;
- 3) if, with respect to Brightex, Araco or Mr. Xuan, there exists any circumstance constituting an Event of Default (to the extent relating to his/their bankruptcy/insolvency only) of the Scheme Facility Agreement, AACL shall pay the Scheme Shareholders the Cancellation Price in cash ("**AACL Payment**"), subject to compliance with applicable laws, rules and regulations. If AACL pays the Scheme Shareholders the Cancellation Price in cash, then (i) Brightex agrees that AACL shall have no obligation to fund under the Scheme Facility Agreement and shall not make any drawdown request under the Scheme Facility Agreement; and (ii) the Joint Offerors agree that the issued share capital of the Company will, on the Effective Date, be reduced by the cancellation of the Scheme Shares, but will be increased to its former amount prior to the cancellation of the Scheme Shares by the issue at par to AACL, credited as fully paid, of the same number of new Shares as the number of Scheme Shares cancelled. The reserve created in the Company's books of account as a result of the capital reduction will be applied in paying up in full at par the new Shares so issued to AACL; and
- 4) all decisions relating to the Scheme will be made jointly by AACL and Brightex.

Therefore, Brightex (as a Joint Offeror) has the primary obligation to pay the Cancellation Price and acquire the Scheme Shares. AACL will only step in and pay the Cancellation Price to acquire the Scheme Shares only in the event there exists any circumstances constituting an Event of Default (to the extent relating to the bankruptcy/insolvency of Araco, Mr. Xuan and/or Brightex only).

(b) The Pre-Delisting Shareholders' Agreement

On 24 April 2019, AACL, Araco and Brightex entered into the Pre-Delisting Shareholders' Agreement, pursuant to which they have agreed, among other things, that with effect from the date of the Pre-Delisting Shareholders' Agreement up to the Delisting Date:

- 1) (a) AACL and Araco shall each have a reciprocal right of first refusal in respect of any proposed transfer of Shares; (b) AACL and Araco shall each have a reciprocal tag along right to the extent that it or its affiliates proposes to transfer any Shares to any person other than to another party to the Pre-Delisting Shareholders' Agreement or any of its affiliates at any time; and (c) AACL shall have a drag along right if certain conditions are met on 9 September 2021 or when Mr. Xuan ceases to be a director of the Company or senior manager of the Company;
- 2) certain corporate governance matters including composition of the Board; and
- 3) unless with the prior consent of AACL, Araco and Brightex shall not and shall procure that none of their respective affiliates shall, create any encumbrances over any: (a) equity interests of Araco held by Brightex, Mr. Xuan or any of his affiliates or (b) Shares held by Araco, Brightex, Mr. Xuan or any of his affiliates as security in favour of, or to secure obligations owed to, any financiers or any other third party (the "**Pre-Delisting Pledge Restriction**"). The Pre-Delisting Pledge Restriction shall expire on the earlier of: (A) 9 September 2021; or (B) the date on which the aggregate number of Shares held by AACL and its affiliates is equal to or less than 82,101,098 Shares, representing approximately 8.0% of the total issued Shares as at the Latest Practicable Date.

(c) The Shareholders' and Bondholders' Agreement

On 14 June 2019 (after trading hours), AACL, Araco, AHCL, Mr. Xuan, Brightex and the Company entered into the Shareholders' and Bondholders' Agreement, pursuant to which they have agreed, among other things, that with effect from and after the Delisting Date:

- 1) (a) AACL and AHCL (together the "**ACP Holders**", and each, an "**ACP Holder**") on one hand, and Mr. Xuan, Brightex and Araco (together the "**Management Holders**", and each, a "**Management Holder**") on the other hand, shall each have a reciprocal right of first refusal in respect of any proposed transfer of equity securities of the Company by the other party; (b) each ACP Holder on one hand, and each Management Holder on the other hand, shall have a reciprocal tag along right to the extent that the Transferring Shareholder (as defined in the Shareholders' and Bondholders' Agreement), who could be any ACP Holder or any Management Holder, proposes to transfer any Equity Securities to any person other than to another party to the Shareholders' and Bondholders' Agreement or any of its affiliates at any time; and (c) AACL shall have a drag along right if on 9 September 2021, (i) the ACP Holders

together with their respective affiliates still hold not less than 10% of the total share capital of the Company at that time (calculated on an as-converted and as-exchanged basis); or (ii) Mr. Xuan ceases to be a director of the Company or senior manager of the Company;

- 2) certain corporate governance matters including composition of the Board; and
- 3) unless with the prior consent of AACL, each Management Holder shall not and shall procure that none of their respective affiliates shall, transfer any: (a) equity securities of Araco held by Brightex, Mr. Xuan or any of his affiliates; (b) Shares held by Araco (including the Charged Shares), Brightex, Mr. Xuan or any of his affiliates; or (c) equity securities of Brightex held by Mr. Xuan or any of his affiliates, as security in favour of, or to secure obligations owed to, any financiers or any other third party (the “**Lock-Up**”). The Lock-Up shall expire on the earlier of: (A) the date falling on the fifth anniversary of the Delisting Date; or (B) the date on which the aggregate number of Shares held by ACP Holders and their affiliates (calculated on an as-converted and as-exchanged basis) is equal to or less than 82,101,098 Shares, representing approximately 8.0% of the total issued Shares as at the Latest Practicable Date.

The Pre-Delisting Shareholders’ Agreement shall be terminated and be of no further force or effect upon the Delisting Date. For the avoidance of doubt, the Pre-Delisting Shareholders’ Agreement shall remain effective in the event the Scheme is not approved or the Proposal otherwise lapses.

(d) The Sale and Purchase Agreement

On 14 June 2019 (after trading hours), AACL, Araco, Mr. Xuan and Brightex entered into the Sale and Purchase Agreement, which shall become effective immediately where there exists any circumstance constituting an Event of Default (to the extent relating to bankruptcy/insolvency of Araco, Mr. Xuan and Brightex only) of the Scheme Facility Agreement and AACL is obligated to pay the Scheme Shareholders the Cancellation Price in cash in accordance with the Scheme Consortium Agreement. Pursuant to the Sale and Purchase Agreement, AACL shall sell, and Mr. Xuan and Brightex shall purchase the new Shares so issued to AACL as a result of the AACL Payment and the cancellation of the Scheme Shares, at a price per Share equal to the Cancellation Price, subject to the terms and conditions therein and provided that any such sale and purchase will complete only after the Delisting Date. It is expected that the completion will take place after the Delisting Date and in any case before 31 December 2019.

The consideration payable under the Sale and Purchase Agreement will be settled by Brightex and/or Mr. Xuan in cash by internal/own resources or through external means including but not limited to debt or equity fund raising activities.

For the avoidance of doubt, if the Delisting lapses, the AACL Payment arrangement, the Amendment Agreement to the 2018 Facility Agreement and the Sale and Purchase Agreement will terminate automatically.

FINANCIAL RESOURCES

On the assumption that no further Shares are issued before the Record Date and taking into consideration the AACL Undertaking and the AHCL Opt-out Undertaking, the Scheme Shares comprise 261,332,433 Shares which represent approximately 25.46% of the issued share capital of the Company as at the Latest Practicable Date and the amount of cash required for the Proposal is approximately HK\$391,998,649.50 based on the Cancellation Price.

Brightex is financing the funds required for the Proposal by the loan facility granted by AACL under the Scheme Facility Agreement, which is in turn funded by a letter of credit issued by a bank in favour of AACL (the “**Letter of Credit**”). AACL Payment obligations, if triggered, would also be funded by the Letter of Credit. For the avoidance of doubt, the Scheme Shareholders will be paid under the Scheme, if approved, either (i) by Brightex by utilising the facility pursuant to the Scheme Facility Agreement; or (ii) by AACL directly by utilising the Letter of Credit in the event the AACL Payment occurs.

Somerley, the financial adviser to the Joint Offerors, is satisfied that sufficient financial resources are available to the Joint Offerors for discharging their obligations in respect of the full implementation of the Scheme in accordance with its terms.

REASONS FOR, AND BENEFITS OF, THE PROPOSAL

You are urged to read carefully the section headed “*12. Reasons for, and Benefits of, the Proposal*” in Part VII. – Explanatory Memorandum of this Scheme Document.

INTENTIONS OF THE JOINT OFFERORS IN RELATION TO THE GROUP

You are urged to read carefully the sub-section headed “*Intentions of the Joint Offerors in relation to the Group*” under the section headed “*12. Reasons for, and Benefits of, the Proposal*” in Part VII. – Explanatory Memorandum of this Scheme Document.

The Board is pleased to note the intentions of the Joint Offerors to continue the existing businesses of the Group and as at the Latest Practicable Date, do not intend to make any major changes to the business of the Group other than a potential separation of the Petrochemical Business with the hospital services business (including but not limited to the Possible Disposal) to facilitate any further strategic review of these two businesses, exploring new development opportunities and implementing long-term growth strategies alongside the continued review of its strategic options relating to the business, structure and/or direction of the Group. Also, the Board is pleased to note that the Joint Offerors may continue to explore the possibility of realigning or redeploying the assets and/or businesses of the Group and assess suitable opportunities to enhance the financial flexibility and/or rationalise the businesses of the Group, which may involve divestments and/or securitisation of existing investments and/or fixed and other types of assets of the Group, and that the Joint Offerors have no intention of making any significant changes to employees of the Group as a result of the implementation of the Proposal.

INFORMATION ON THE GROUP AND THE JOINT OFFERORS**Information of the Company and the Group**

The Company is an investment holding company and the Group is engaged in the (i) provision of safety and critical control system and control valves specialized for petrochemical industries, along with related maintenance and engineering services; and (ii) hospital business in Suzhou, the PRC.

Information on Brightex

Brightex was incorporated in the British Virgin Islands with limited liability. Brightex is the indirect owner of 515,696,164 Shares as at the Latest Practicable Date. As at the Latest Practicable Date, Brightex is wholly-owned by Mr. Xuan.

Information on Mr. Xuan

Mr. Xuan, aged 50, is the Group's founder, executive Director and Chairman of the Company and the sole director of Araco and Brightex respectively. Mr. Xuan graduated from Renmin University of China (中國人民大學) with a bachelor's degree in international politics. He is an incumbent director of Yabuli Entrepreneur Association and Deputy Chairman of China Instrument and Control Society. Mr. Xuan is also one of the winners of Ernst & Young Entrepreneur of The Year 2009 China. Mr. Xuan is also a director and deputy chairman of Guangdong Huatie Tongda High-speed Railway Equipment Corporation (廣東華鐵通達高鐵裝備股份有限公司) (formerly known as Guangdong Kaiping Chunhui Co., Ltd. (廣東開平春暉股份有限公司)), which is a company listed on the Shenzhen Stock Exchange (Stock Code: 000976). He has extensive experience in management, administration and business development in different industries including industrial automation, biotechnology, telecommunication and trading in the PRC. He previously served as General Manager of Beijing Consen Automation Control Co., Ltd. (北京康吉森自動化設備技術有限責任公司), etc.

Information on AACL

AACL is an exempted company incorporated with limited liability in the Cayman Islands on 1 April 2016, which is a direct wholly-owned subsidiary of ACP Fund II. The general partner of ACP Fund II is Ascendent Capital Partners II GP, L.P, and its general partner is Ascendent Capital Partners II GP Limited. ACP Fund II is advised by Ascendent Capital Partners (Asia) Limited and ultimately controlled by Ascendent Capital Partners II GP Limited, which is ultimately owned by Mr. Meng Liang. Ascendent Capital Partners (Asia) Limited is a private equity investment management firm focused on Greater China-related investment opportunities, managing capital for global renowned institutional investors including sovereign wealth funds, endowments, pensions and foundations.

WITHDRAWAL OF LISTING OF SHARES

Upon the Effective Date, all Scheme Shares will be cancelled and the share certificates for the Scheme Shares will thereafter cease to have effect as documents or evidence of title.

The Company will apply to the Stock Exchange for the withdrawal of the listing of the Shares on the Stock Exchange in accordance with Rule 6.15 of the Listing Rules immediately following the Effective Date.

Dealings in the Shares on the Stock Exchange are expected to cease after 4:00 p.m. on Thursday, 10 October 2019, and the listing of the Shares on the Stock Exchange is expected to be withdrawn at 4:00 p.m. on Monday, 28 October 2019. The Scheme Shareholders will be notified by way of an announcement of the exact dates of the last day for dealing in the Shares on the Stock Exchange and the day on which the Scheme and the withdrawal of the listing of Shares on the Stock Exchange will become effective.

IF THE SCHEME IS NOT APPROVED OR THE PROPOSAL LAPSES

The Scheme will lapse if any of the Conditions has not been fulfilled or waived, as applicable, on or before the Long Stop Date. The listing of the Shares on the Stock Exchange will not be withdrawn if the Scheme does not become effective or the Proposal otherwise lapses.

If the Scheme is not approved or the Proposal otherwise lapses, there are restrictions under the Takeovers Code on making subsequent offers, to the effect that neither the Joint Offerors nor any person who acted in concert with either of them in the course of the Proposal (nor any person who is subsequently acting in concert with any of them) may within 12 months from the date on which the Scheme is not approved or the Proposal otherwise lapses announce an offer or possible offer for the Company, except with the consent of the Executive.

If the Independent Board Committee or the Independent Financial Adviser does not recommend the Proposal, and the Scheme is not approved, all expenses incurred by the Company in connection therewith shall be borne by the Joint Offerors in accordance with Rule 2.3 of the Takeovers Code.

Shareholders and potential investors should exercise caution when dealing in the securities of the Company. Persons who are in doubt as to the action they should take should consult their stockbroker, bank manager, solicitor or other professional advisers.

COURT MEETING AND EGM

In accordance with the directions of the Grand Court, the Court Meeting will be held for the purpose of considering and, if thought fit, passing a resolution to approve the Scheme (with or without modifications). All holders of Scheme Shares (other than the Ascendent Employee being one of the Joint Offeror Concert Parties who holds Scheme Shares) whose names appear on the register of members of the Company as at the Meeting Record Date shall be entitled to attend and vote, in person or by proxy, at the Court Meeting.

The EGM will be held immediately following the Court Meeting. All Shareholders whose names appear in the register of members of the Company as at the Meeting Record Date shall be entitled to attend and vote, in person or by proxy, on, among other things, the special resolution by the Shareholders to approve and give effect to (i) the reduction of the issued share capital of the Company by cancelling and extinguishing the Scheme Shares, (ii) the increase of the issued share capital of the Company to the amount prior to the cancellation of the Scheme Shares by issuing to either Brightex (in the event the AACL Payment

does not occur) or AACL (in the event the AACL Payment occurs) only such number of new Shares as is equal to the number of Scheme Shares cancelled and (iii) the application of the credit arising in the Company's books of accounts as a result of such issued share capital reduction in paying up in full at par value the new Shares issued to Brightex or AACL only (as the case may be), credited as fully paid.

As regards the voting requirements on the holders of Scheme Shares and Shareholders at the Court Meeting and the EGM respectively, please see the section headed "*20. Court Meeting and EGM*" in Part VII. – Explanatory Memorandum of this Scheme Document.

Notices of the Court Meeting and the EGM are set out in Appendix V. and Appendix VI. to this Scheme Document. The Court Meeting and the EGM will be held on Monday, 23 September 2019 at the times specified in those notices at Regus Hong Kong Central Plaza, 35th Floor, Central Plaza, 18 Harbour Road, Wan Chai, Hong Kong.

As at the Latest Practicable Date, neither the Joint Offerors nor any of the Joint Offeror Concert Parties has received any irrevocable commitment to vote for or against the Proposal.

OVERSEAS SHAREHOLDERS

Your attention is drawn to the section headed "*16. Overseas Shareholders*" in Part VII. – Explanatory Memorandum of this Scheme Document.

ACTIONS TO BE TAKEN

Your attention is drawn to “*Part II. – Actions to be Taken*” of this Scheme Document and the section headed “*22. Summary of Actions to be Taken*” in Part VII. – Explanatory Memorandum of this Scheme Document.

RECOMMENDATION

Your attention is drawn to “*Part V. – Letter from the Independent Board Committee*” of this Scheme Document which sets out the advice from the Independent Board Committee to the Independent Shareholders in connection with the Proposal and the Scheme. Your attention is also drawn to “*Part VI. – Letter from the Independent Financial Adviser*” of this Scheme Document which sets out the advice from the Independent Financial Adviser to the Independent Board Committee in connection with the Proposal and the Scheme, and the principal factors taken into consideration in arriving at its recommendations.

The Independent Financial Adviser has advised the Independent Board Committee that it considers that, as far as the Independent Shareholders are concerned, the terms of the Proposal (including the Cancellation Price) and the Scheme are fair and reasonable, and accordingly, it advises 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 to approve and implement the Proposal and the Scheme.

The Independent Board Committee, having considered the terms of the Proposal, and having taken into account the advice of the Independent Financial Adviser, and in particular the factors, reasons and recommendations set out in its letter, considers 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, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the Court Meeting and the EGM to approve and implement the Proposal and the Scheme.

REGISTRATION AND PAYMENT

Your attention is drawn to the section headed “*18. Registration and Payment*” in Part VII. – Explanatory Memorandum of this Scheme Document.

TAXATION AND INDEPENDENT ADVICE

Your attention is drawn to the section headed “*19. Taxation and Independent Advice*” in Part VII. – Explanatory Memorandum of this Scheme Document.

It is emphasised that none of the Joint Offerors, the Joint Offeror Concert Parties, the Company, Somerley, Elstone and the Share Registrar and their agents or any of their respective directors, employees, officers or associates and affiliates or any other person involved in the Scheme and the Proposal accepts responsibility or has any liability for any taxation effects on, or liabilities of, any persons as a result of their acceptance or rejection, or implementation, of the Proposal and the Scheme. All holders of Scheme Shares

and/or Beneficial Owners shall be solely responsible for their liabilities (including tax liabilities) in relation to the Proposal, and are recommended to consult their professional advisers if in any doubt as to the taxation implications of the Proposal.

FURTHER INFORMATION

You are urged to read carefully the letters from the Independent Board Committee and from Elstone, the Independent Financial Adviser, as set out in Part V. and Part VI. of this Scheme Document, respectively, the Explanatory Memorandum as set out in Part VII. of this Scheme Document, the appendices to this Scheme Document, the terms of the Scheme as set out in Appendix IV. to this Scheme Document, the notice of Court Meeting as set out in Appendix V. to this Scheme Document and the notice of EGM as set out in Appendix VI. to this Scheme Document. In addition, a **pink** form of proxy for the Court Meeting and a **white** form of proxy for the EGM are enclosed with copies of this Scheme Document sent to Registered Owners.

Yours faithfully,
By Order of the Board
China Automation Group Limited
Xuan Rui Guo
Chairman



中國自動化集團有限公司

China Automation Group Limited

(HK stock code 0569)

(Incorporated in the Cayman Islands with limited liability)

Members of the

Independent Board Committee:

Mr. Wang Tai Wen

Mr. Ng Wing Fai

Mr. Zhang Xin Zhi

Registered office:

Cricket Square, Hutchins Drive

P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

Principal place of business in

Hong Kong:

Unit 3205B-3206

32nd Floor, Office Tower

Convention Plaza

1 Harbour Road

Wanchai, Hong Kong

31 August 2019

To the Independent Shareholders,

Dear Sir or Madam,

**(1) PROPOSAL FOR THE PRIVATISATION OF
CHINA AUTOMATION GROUP LIMITED
BY THE JOINT OFFERORS BY WAY OF A SCHEME OF ARRANGEMENT
(UNDER SECTION 86 OF THE COMPANIES LAW)
AND
(2) PROPOSED WITHDRAWAL OF LISTING**

We refer to the document dated 31 August 2019 jointly issued by the Joint Offerors and the Company in relation to the Proposal (the “**Scheme Document**”), of which this letter forms part. Terms defined in the Scheme Document shall have the same meanings in this letter unless the context otherwise requires.

We have been appointed by the Board as the Independent Board Committee to make a recommendation to the Independent Shareholders in respect of the Proposal and the Scheme, details of which are set out in “*Part IV. – Letter from the Board*” and “*Part VII. – Explanatory Memorandum*” of the Scheme Document.

PART V. LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Elstone, the Independent Financial Adviser, has been appointed with our approval, to advise us in connection with the Proposal and the Scheme. The details of its advice and the principal factors taken into consideration in arriving at its recommendations are set out in “*Part VI. – Letter from the Independent Financial Adviser*” of the Scheme Document.

In the letter from the Independent Financial Adviser set out in Part VI. of the Scheme Document, the Independent Financial Adviser states that it considers the terms of the Proposal (including the Cancellation Price) and the Scheme are fair and reasonable as far as the Independent Shareholders are concerned, and advises 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 to approve and implement the Proposal and the Scheme.

The Independent Board Committee, having considered the terms of the Proposal and the Scheme, and having taken into account the opinion of the Independent Financial Adviser, and in particular the factors, reasons and recommendations set out in its letter, considers that the terms of the Proposal (including the Cancellation Price) and the Scheme are fair and reasonable as far as the Independent Shareholders are concerned.

Accordingly, the Independent Board Committee recommends:

- (a) at the Court Meeting, the Independent Shareholders to vote in favour of the Scheme;
- (b) at the EGM, the Independent Shareholders to vote in favour of the special resolution to approve and give effect to:
 - (i) the reduction of the issued share capital of the Company by cancelling and extinguishing the Scheme Shares;
 - (ii) the increase of the issued share capital of the Company to the amount prior to the cancellation of the Scheme Shares by issuing to either Brightex (in the event the AACL Payment does not occur) or AACL (in the event the AACL Payment occurs) only such number of new Shares as is equal to the number of Scheme Shares cancelled; and
 - (iii) the application of the credit arising in the Company’s books of accounts as a result of such issued share capital reduction in paying up in full at par value the new Shares issued to Brightex or AACL only (as the case may be), credited as fully paid.

PART V. LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee draws the attention of the Independent Shareholders to (i) the letter from the Board set out in Part IV. of the Scheme Document; (ii) the letter from the Independent Financial Adviser, which sets out the factors and reasons taken into account in arriving at its recommendation to the Independent Board Committee, set out in Part VI. of the Scheme Document; and (iii) the Explanatory Memorandum set out in Part VII. of the Scheme Document.

Yours faithfully,

The Independent Board Committee

Mr. WANG Tai Wen
*Independent Non-executive
Director*

Mr. NG Wing Fai
*Independent Non-executive
Director*

Mr. ZHANG Xin Zhi
*Independent Non-executive
Director*

PART VI. LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of the letter from Elstone Capital Limited setting out its advice to the Independent Board Committee in respect of the Proposal and the Scheme, which has been prepared for the purpose of inclusion in this Scheme Document.



31 August 2019

To the Independent Board Committee

Dear Sirs,

**PROPOSAL FOR THE PRIVATISATION OF
CHINA AUTOMATION GROUP LIMITED
BY THE JOINT OFFERORS
BY WAY OF A SCHEME OF ARRANGEMENT
(UNDER SECTION 86 OF THE COMPANIES LAW)**

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee in connection with the Proposal and the Scheme, details of which are set out in the scheme document dated 31 August 2019 (the “**Scheme Document**”) jointly issued by the Company and the Joint Offerors in relation to the Proposal, of which this letter forms part. Capitalised terms used in this letter shall have the same meaning as defined in this Scheme Document unless the context otherwise requires.

The Independent Board Committee comprises all independent non-executive Directors, namely Mr. Wang Tai Wen, Mr. Ng Wing Fai and Mr. Zhang Xin Zhi, and 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 so far as the Independent Shareholders are concerned; and (ii) whether to vote in favour of the relevant resolutions to be proposed at the Court Meeting and the EGM to approve and implement the Proposal and the Scheme. As the Independent Financial Adviser, our role is to give an independent opinion to the Independent Board Committee in such regard. The Independent Board Committee has approved our appointment as the Independent Financial Adviser in respect of the Proposal and the Scheme.

OUR INDEPENDENCE

We are not associated with the Company, the Joint Offerors, their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them. Apart from normal professional fees paid or payable to us in connection with this engagement, no other arrangement exists whereby we will

PART VI. LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

receive any fees or benefits from the Company, the Joint Offerors, 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 an independent advice to the Independent Board Committee.

BASIS OF OUR OPINION

In formulating our opinion and advice, we have relied on (i) the information and facts contained or referred to in this Scheme Document; (ii) the information supplied by the Directors and the management of the Group; (iii) the opinions expressed by and the representations of the Directors and the management of the Group; and (iv) our review of the relevant public information. We have assumed that all the information provided and representations and opinions expressed to us or contained or referred to in this Scheme Document were true, accurate and complete in all respects as at the date thereof and may be relied upon. We have also assumed that all statements contained and representations made or referred to in this Scheme Document are true at the time they were made and continue to be true as at the Latest Practicable Date and all such statements of belief, opinions and intentions of the Directors and the management of the Group and those as set out or referred to in this Scheme Document were reasonably made after due and careful enquiry. We have no reason to doubt the truth, accuracy and completeness of such information and representations provided to us by the Directors and the management of the Group. We have also sought and received confirmation from the Directors that no material facts have been withheld or omitted from the information provided and referred to in this Scheme Document and that all information or representations provided to us by the Directors and the management of the Group are true, accurate, complete and not misleading in all respects at the time they were made and continued to be so until the Latest Practicable Date.

Holders of the Scheme Shares will be informed by the Company and us as soon as practicable if there is any material change to the information disclosed in this Scheme Document during the Offer Period, in which case we will consider whether it is necessary to revise our opinion and inform the Independent Board Committee and the holders of the Scheme Shares accordingly.

We consider that we have reviewed sufficient information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in this Scheme Document so as to provide a reasonable basis for our recommendation. We have not, however, carried out any independent verification of the information provided, representations made or opinion expressed by the Directors and the management of the Group, nor have we conducted any form of in-depth investigation into the business, affairs, operations, financial position or future prospects of the Company or any of their respective subsidiaries and associates.

We have not considered the tax, regulatory and other legal implications on the holders of the Scheme Shares in respect of the implementation of the Proposal, since these implications depend on their individual circumstances. In particular, holders of the Scheme Shares who are overseas residents or subject to overseas taxation or Hong Kong taxation on securities dealings should consult their own professional advisers.

PRINCIPAL TERMS AND CONDITIONS OF THE PROPOSAL

Subject to the fulfilment or waiver (as applicable) of the Conditions, the proposed privatisation of the Company will be implemented by way of the Scheme.

PART VI. LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

1. Principal terms of the Scheme

Under the Scheme, the Scheme Shareholders will receive the Cancellation Price of HK\$1.50 in cash from the Joint Offerors for each Scheme Share as consideration for cancellation of the Scheme Shares held as at the Effective Date.

On the basis of the Cancellation Price of HK\$1.50 per Scheme Share and 261,332,433 Scheme Shares in issue as at the Latest Practicable Date, the amount of cash payable to the Scheme Shareholders under the Proposal would be approximately HK\$392.0 million.

Based on the Cancellation Price and the number of Shares in issue as at the Latest Practicable Date, the Proposal valued the Company at approximately HK\$1,539.4 million.

If the Scheme is not approved or the Proposal otherwise lapses, neither the Joint Offerors nor any person who acted in concert with it in the course of the Proposal (nor any person who is subsequently acting in concert with any of them) may, within 12 months from the date on which the Scheme is not approved or the Proposal otherwise lapses, announce an offer or possible offer for the Company, except with the consent of the Executive.

2. Conditions of the Proposal and the Scheme

The implementation of the Proposal is, and the Scheme will become effective and binding on the Company and all Scheme Shareholders subject to the fulfilment or waiver (as applicable), among others, of the following conditions:

- (i) the approval of the Scheme (by way of poll) by a majority in number representing 75% in value of the holders of the Scheme Shares on the Record Date (or class of such holders as directed by the Grand Court) present and voting either in person or by proxy at the Court Meeting, provided that:
 - (a) the Scheme is approved (by way of poll) by the Independent Shareholders holding at least 75% of the votes attaching to the Scheme Shares held by Independent Shareholders that are voted either in person or by proxy at the Court Meeting; and
 - (b) the number of votes cast (by way of poll) by Independent Shareholders present and voting either in person or by proxy at the Court Meeting against the resolution to approve the Scheme at the Court Meeting is not more than 10% of the votes attaching to all Scheme Shares held by all Independent Shareholders;
- (ii) the passing of a special resolution by a majority of not less than three-fourths of the votes cast by the Shareholders present and voting in person or by proxy or by duly authorized representative at an EGM to approve and give effect to (a) the reduction of the issued share capital of the Company by the cancellation of the Scheme Shares; (b) the increase of the issued share capital of the Company to the amount prior to the cancellation of the Scheme Shares by issuing to either Brightex (in the event the AACL Payment does not occur) or AACL (in the event the AACL Payment occurs) such number of new Shares as is equal to the number of

PART VI. LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Scheme Shares cancelled and (c) the application of the credit arising in the Company's books of accounts as a result of such issued share capital reduction in paying up in full at par value the new Shares issued to Brightex or AACL (as the case may be), credited as fully paid;

- (iii) the sanction of the Scheme (with or without modifications) by the Grand Court and its confirmation of the reduction of the issued share capital of the Company, and the delivery to the Registrar of Companies in the Cayman Islands of a copy of the order of the Grand Court and the minutes approved by the Grand Court in respect of the reduction of the issued share capital of the Company for registration; and
- (iv) compliance, to the extent necessary, with the procedural requirements and conditions, if any, under Sections 15, 16 and 17 of the Companies Law in relation to the reduction of the issued share capital of the Company.

The Joint Offerors reserves the right to waive the other Conditions as described in the paragraph headed "3. Conditions of the Proposal and the Scheme" in the Explanatory Memorandum in this Scheme Document, but not the conditions (i) to (iv) above, in whole or in part, either generally or in respect of any particular matter. The Company does not have the right to waive any of the Conditions. All of the Conditions will have to be fulfilled or waived, as applicable, on or before the Long Stop Date, failing which the Proposal and the Scheme will lapse.

Pursuant to Note 2 to Rule 30.1 of the Takeovers Code, the Joint Offerors may only invoke any or all of the Conditions as a basis for not proceeding with the Scheme if the circumstances which give rise to the right to invoke such Condition(s) are of material significance to the Joint Offerors in the context of the Proposal.

PRINCIPAL FACTORS AND REASONS CONSIDERED

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

1. Background information of the Group

The Group is principally engaged in provision of (i) the integration and sales of safety and critical control systems, trading of equipment, provision of maintenance and engineering services, design and consulting services and sales of software products for the petrochemical, chemical, oil and gas, biodiesel and coal chemical industries and manufacture of industrial control valves (the "**Petrochemical Business**"); and (ii) healthcare services and sales of pharmaceuticals (the "**Healthcare Business**"). The Company has been listed on the Stock Exchange since 2007.

According to the respective annual report of the Company for the years ended 31 December 2017 (the "**2017 Annual Report**"), 31 December 2018 (the "**2018 Annual Report**") and the interim report (the "**2019 Interim Report**") of the Company for the six months ended 30 June 2019 ("**6M2019**"), set out below are summaries of the principal activities of the Group for the years ended 31 December 2016 ("**FY2016**"), 2017 ("**FY2017**") and 2018 ("**FY2018**") and for 6M2019. The Group's Petrochemical Business is carried out in the PRC and other countries whereas the Healthcare Business is carried out in the PRC. The Group derived

PART VI. LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

approximately 91.2% and 8.8% of its revenue from the PRC and other countries for FY2018, respectively, and approximately 94.7% and 5.3% of its revenue from the PRC and other countries for 6M2019, respectively.

(i) Petrochemical Business

The Group is the largest integrated solution provider of safety and critical control systems, the largest domestic manufacturer of control valves in the petrochemical industry in the PRC. It specializes in providing safety and critical control systems, and control valves for petrochemical industry, and engineering design and engineering, procurement and construction for petrochemical, coal liquefaction & chemical and other industries. Its major products in petrochemical industry include emergency shutdown devices, fire and gas systems, integrated turbine and compressor controls and automatic control valves.

As stated in the 2018 Annual Report, the Group successfully completed and delivered approximately 455 sets of systems for FY2018.

(ii) Healthcare Business

The Group, in July 2017, has completed the acquisition (the “**Hospital Acquisition**”) of 60% equity interest in Etern Group Limited, an investment holding company holding 98% interest in Yongding Hospital Company Limited (“**Yongding Hospital**”), which is principally engaged in general hospital business since 2007 in Suzhou, the PRC. Yongding Hospital is currently a privately-owned class II general hospital (綜合醫院) providing extensive medical services covering comprehensive clinical and medical disciplines.

As stated in the 2018 Annual Report, Yongding Hospital, in 2018, had about 590,481 outpatient visits, representing a year-on-year increase of 11%, and about 23,191 inpatient visits, representing a year-on-year decrease of 7.8%, and an average length of stay maintained in about 7.1 days.

PART VI. LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

2. Financial information of the Group

(i) Financial performance

The following table sets out information of the consolidated statements of profit or loss and other comprehensive income of the Group for FY2016, FY2017, FY2018 and the six months ended 30 June 2018 (“6M2018”) and 2019, as disclosed in the 2017 Annual Report, 2018 Annual Report and the 2019 Interim Report:

	For the year ended 31 December			For the six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	(unaudited)
Continuing operations					
Revenue	1,062,132	1,223,022	1,891,094	809,506	968,986
Cost of sales	<u>(938,591)</u>	<u>(1,030,607)</u>	<u>(1,315,395)</u>	<u>(609,264)</u>	<u>(724,716)</u>
Gross profit	123,541	192,415	575,699	200,242	244,270
Profit/(Loss) before taxation	(355,513)	(174,852)	52,864	(66,127)	(74,078)
Income tax credit/(expense)	<u>8,701</u>	<u>(17,403)</u>	<u>(45,576)</u>	<u>(16,059)</u>	<u>(21,718)</u>
Profit/(Loss) for the year from continuing operations	(346,812)	(192,255)	7,288	(82,186)	(95,796)
Discontinued operations					
Loss for the year from discontinued operations	(68,085)	(15,295)	-	-	-
Profit/(Loss) for the year	(414,897)	(207,550)	7,288	(82,186)	(95,796)
Loss for the year attributable to owners of the Company					
Continuing operations	(390,757)	(201,550)	(18,480)	(100,521)	(107,603)
Discontinued operations	<u>-</u>	<u>(6,634)</u>	<u>-</u>	<u>-</u>	<u>-</u>
	(390,757)	(208,184)	(18,480)	(100,521)	(107,603)
Loss per Share (RMB cents)					
Continuing operations and discontinued operations	(38.08)	(20.29)	(1.80)	(9.80)	(10.48)
Continuing operations	(33.83)	(19.64)	(1.80)	(9.80)	(10.48)

PART VI. LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(a) *Revenue*

Revenue of the Group is mainly derived from the (1) Petrochemical Business; and (2) Healthcare Business. The following table sets out the breakdown of revenue and operating profit by business segments during the FY2016, FY2017, FY2018 and 6M2018 and 6M2019:

	For the year ended 31 December			For the six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	(unaudited)
<i>Segment Revenue</i>					
Petrochemical					
Business	1,062,132	1,031,812	1,423,249	579,344	712,871
Healthcare					
Business	<u>-</u>	<u>191,210</u>	<u>467,845</u>	<u>230,162</u>	<u>256,115</u>
Total	<u>1,062,132</u>	<u>1,223,022</u>	<u>1,891,094</u>	<u>809,506</u>	<u>968,986</u>

Petrochemical Business

Revenue from the Petrochemical Business mainly generated from (A) sales of systems and software, and sales of industrial control valves, and (B) provision of maintenance and engineering and design and consulting services, which accounted for about (i) 81.3% and 18.7% of the revenue of the Petrochemical Business for 6M2019; (ii) 78.4% and 21.6% of the revenue of the Petrochemical Business for FY2018, respectively; (iii) 73.3% and 26.7% of the revenue of the Petrochemical Business for FY2017, respectively; and (iv) 72.9% and 27.1% of the revenue of the Petrochemical Business for FY2016, respectively.

6M2019 vs 6M2018

The revenue generated from the Petrochemical Business of approximately RMB712.9 million for 6M2019, representing an increase of approximately 23.1% compared with that of RMB579.3 million for 6M2018. The increase in revenue was mainly driven by the improved sales of the systems and software and industrial control valves. The increase in revenue from sales of systems and software was mainly due to the increase in tendering and delivery activities in the petrochemical industry during 6M2019. The increase in revenue from sales of industrial control valves was mainly due to more contracts won in the petrochemical and pharmaceutical industries during 6M2019.

PART VI. LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

FY2018 vs FY2017

The revenue generated from the Petrochemical Business of approximately RMB1,423.2 million for FY2018, representing an increase of approximately 37.9% compared with that of RMB1,031.8 million for FY2017. The increase in revenue was mainly driven by the improved sales of the systems and software and industrial control valves. The revenue from sales of systems and software increased from approximately RMB287.9 million for FY2017 to approximately RMB535.3 million for FY2018, representing an increase of approximately 85.9%. Such increase was mainly attributable to the increase in tendering and delivery activities in the petrochemical industry during FY2018. The revenue from sales of industrial control valves increased from approximately RMB467.9 million for FY2017 to approximately RMB580.1 million for FY2018, representing an increase of approximately 24.0%. Such increase was mainly due to more contracts won during FY2018. The revenue from provision of maintenance and engineering and design and consulting services increased from approximately RMB276.0 million for FY2017 to approximately RMB307.8 million for FY2018, representing an increase of approximately 11.5%. Such change was mainly attributable to income generated from maintenance services work performed as more aged installations needed to be replaced.

FY2017 vs FY2016

The revenue generated from the Petrochemical Business of approximately RMB1,031.8 million for FY2017, representing a slight decrease of approximately 2.9% compared with that of RMB1,062.1 million for FY2016. The revenue from sales of systems and software and trading of equipment decreased from approximately RMB449.2 million for FY2016 to approximately RMB287.9 million for FY2017, representing a decrease of approximately 35.9%. Such decrease was mainly due to the Group's new strategy to shift its focus and efforts from low-margin contracts to contracts with higher margins and better cashflow terms, notwithstanding the rebound in crude oil prices. The revenue from sales of industrial control valves increased from approximately RMB325.5 million for FY2016 to approximately RMB467.9 million for FY2017, representing an increase of approximately 43.7%. Such increase was mainly due to (i) larger orders won from the pharmaceutical industry; and (ii) the resume of delayed project due to plant relocation in the last quarter of 2016. The revenue from provision of maintenance and engineering and design and consulting services decreased from approximately RMB287.5 million for FY2016 to approximately RMB276.0 million for FY2017, representing a slight decrease of 4.0%.

PART VI. LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Healthcare Business

6M2019 vs 6M2018

As set out in the 2019 Interim Report, the revenue generated from the Healthcare Business of approximately RMB256.1 million for 6M2019, representing an increase of approximately 11.3% as compared with that of RMB230.2 million for 6M2018. The increase was mainly due to the completion by stage of the Phase I internal renovation of the inpatient facilities and building of Yongding Hospital since March 2018 which resulted in an increase in hospital beds for accommodation for patients.

FY2018 vs FY2017

As set out in the 2018 Annual Report, the revenue generated from the Healthcare Business of approximately RMB467.9 million for FY2018, representing an increase of approximately 144.7% as compared with that of RMB191.2 million for FY2017. The increase was mainly due to the consolidation of the Healthcare Business for the full year.

FY2017 vs FY2016

As the Hospital Acquisition was completed in July 2017, revenue generated from the Healthcare Business for the year 31 December 2017 amounted to approximately RMB191.2 million.

(b) *Gross profit margin*

The gross profit margins of the Group for FY2016, FY2017, FY2018, 6M2018 and 6M2019 were approximately 11.6%, 15.7%, 30.4%, 24.7% and 25.2%, respectively.

The relatively stable gross profit margin for 6M2019 was primarily due to slight improvement of gross profit margin of Petrochemical Business as compared to 6M2018 as a result of the Group's revised tendering strategy of emphasizing higher margin and better payment terms of contracts, in particular, there was an improvement on the gross profit margin in relation to the systems and software and the related maintenance and engineering services. The gross profit margin of the Hospital Business remained stable for 6M2019, as compared to 6M2018.

The improvement in gross profit margin for FY2018 was primarily due to the improvement of gross profit margin of the Petrochemical Business from approximately 13.5% for FY2017 to approximately 30.4% for FY2018 as a result of the Group's revised tendering strategy of emphasizing higher margin and better payment terms of contracts and the contributions of full year results in 2018 from the Hospital Business which recorded gross profit margin of about 30.5% for FY2018, representing an increase from about 27.8% for FY2017.

PART VI. LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The change in gross profit margin for FY2017 was primarily due to the increase in Petrochemical Business's gross profit margin from about 11.4% for FY2016 to 13.5% for FY2017 as a result of (i) the Group's continuing lower output levels for sales systems and software and began to revise tendering strategy for higher-margin contracts for sales of industrial control valves; (ii) the disposal of the railway segment, which had a gross profit margin lower than that of the Group for FY2016, in January 2017; and (iii) and the contributions of the Hospital Business which recorded a gross profit margin of about 27.8% for FY2017.

(c) *Segment profit/(loss)*

The following table sets out the segment results from the Petrochemical Business and Healthcare Business for the FY2016, FY2017, FY2018 and 6M2018 and 6M2019:

	For the year ended 31 December			For six months ended 30 June	
	2016 (RMB'000)	2017 (RMB'000)	2018 (RMB'000)	2018 (RMB'000) (unaudited)	2019 (RMB'000) (unaudited)
<i>Segment profit/ (loss)</i>					
Petrochemical Business	(289,975)	(264,690)	(340)	(61,164)	(26,262)
Healthcare Business	<u>-</u>	<u>23,411</u>	<u>75,467</u>	<u>49,293</u>	<u>46,421</u>
Total	<u>(289,975)</u>	<u>(241,279)</u>	<u>75,127</u>	<u>(11,871)</u>	<u>20,159</u>

The Petrochemical Business has been loss making for FY2016, FY2017, FY2018 and 6M2019, while the Healthcare Business has been profitable for FY2017, FY2018 and 6M2019 since the completion of the Hospital Acquisition in July 2017. The improvement of financial results of the Petrochemical Business from FY2017 to FY2018 and from 6M2018 to 6M2019, albeit still being loss making, was mainly due to the increase in revenue and gross profit margin as discussed above. As illustrated above, the segment profits of the Healthcare Business for FY2017 and FY2018 were approximately RMB23.4 million and RMB75.5 million, respectively. Such increment was mainly attributable to, among others, the consolidation of full year profit in FY2018 as compared to consolidation of profit since completion of the Hospital Acquisition in July 2017. According to the 2018 Annual Report, the segment profits of the Healthcare Business attributable to owners of the Company for FY2017 and FY2018 were approximately RMB13.4 million and RMB44.3 million, respectively. The segment profits of the Healthcare Business for 6M2019 were relatively stable as compared to 6M2018.

PART VI. LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(d) Other gains/(losses)

The Company recorded other loss of approximately RMB67.9 million and approximately RMB109.3 million for 6M2018 and 6M2019, respectively. Among which, the Company recognised a non-cash item of loss from changes in fair value of Convertible Bonds of approximately RMB67.9 million and approximately RMB113.4 million for 6M2018 and 6M2019, respectively.

The Company recorded other loss of approximately RMB65.2 million for FY2018 as compared to other gain of approximately RMB77.2 million for FY2017. Among which, the Company recognised a non-cash item of loss from changes in fair value of Convertible Bonds of approximately RMB60.4 million as compared to the gain from change in fair value of Convertible Bonds of approximately RMB71.3 million for FY2017.

(e) Loss for the year attributable to the Shareholders

As a result of the foregoing, the loss attributable to the Shareholders slightly increased from approximately RMB100.5 million for 6M2018 to RMB107.6 million for 6M2019.

As a result of the foregoing, the loss attributable to the Shareholders reduced from approximately RMB390.8 million for FY2016 to RMB208.2 million for FY2017 and further reduced to RMB18.5 million for FY2018.

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(ii) *Financial position*

The following table sets out the consolidated statement of financial position of the Company as at 31 December 2017 and 2018, as disclosed in the 2018 Annual Report and as at 30 June 2019, as disclosed in the 2019 Interim Report:

	31 December 2017 <i>RMB'000</i>	31 December 2018 <i>RMB'000</i>	30 June 2019 <i>RMB'000</i> (unaudited)
Non-current assets			
Property, plant and equipment (“PPE”)	923,516	1,008,045	1,032,217
Goodwill	445,500	445,500	445,500
Prepaid lease payments-non-current portion	256,998	272,759	–
Intangible assets	249,136	257,432	256,565
Other non-current assets	157,034	238,962	641,555
Total non-current assets	2,032,184	2,222,698	2,375,837
Current assets			
Trade and bills receivables	1,022,907	1,158,535	1,106,711
Bank balance and cash	308,932	793,475	659,382
Inventories	425,992	443,474	445,208
Prepaid lease payments-current portion	6,804	7,248	–
Other current assets	235,050	257,764	415,962
Total current assets	1,999,685	2,660,496	2,627,263
Current liabilities			
Trade and bills payables	492,441	651,903	645,872
Bank borrowings-due within one year	304,947	429,131	418,593
Other payables, deposits received and accruals	337,514	270,295	171,449
Other current liabilities	203,752	432,517	667,255
Total current liabilities	1,338,654	1,783,846	1,903,169
Non-current liabilities			
Convertible bonds	560,556	617,784	731,245
Deferred income	320,344	408,343	396,562
Long term payables	70,963	573,408	577,286
Other non-current liabilities	372,753	128,033	119,282
Total non-current liabilities	1,324,616	1,727,568	1,824,375
Equity attributable to the owners of the Company	1,180,420	1,166,092	1,058,216
Non-controlling interests	188,179	205,688	217,340
Total equity	1,368,599	1,371,780	1,275,556
Equity attributable to owners of the Company per Share (HK\$) (Note)	1.309	1.293	1.173

Note: The equity attributable to the Shareholders per Share is calculated based on 1,026,263,729 Shares in issue as at the Latest Practicable Date.

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30 June 2019 vs 31 December 2018

Total assets of the Group were approximately RMB5,003.1 million as at 30 June 2019, representing an increase of approximately 2.5% as compared to that as at 31 December 2018.

Non-current assets of the Group as at 30 June 2019 mainly consist of (i) PPE, (ii) intangible assets and goodwill, and (iii) other non-current assets. As at 30 June 2019, (i) PPE and (ii) the intangible assets and goodwill represented approximately 43.4% and 29.6% of the total non-current assets of the Group, respectively.

Current assets of the Group as at 30 June 2019 mainly consist of (i) trade and bill receivables, (ii) inventories, (iii) bank balance and cash, and (iv) other current assets. The trade and bills receivables represented approximately 42.1% of the total current assets of the Group as at 30 June 2019. The Group had bank balance and cash of approximately RMB659.4 million as at 30 June 2019, representing a decrease of approximately 16.9% as compared to the balance as at 31 December 2018. Such decrease was primarily due to purchases of property, plant and equipment in relation to Wuzhong Instrument investment project.

Total liabilities of the Group were approximately RMB3,727.5 million as at 30 June 2019, representing an increase of approximately 6.2% as compared to the position as at 31 December 2018. The Group recorded an increase in current liabilities of approximately RMB119.3 million and an increase in non-current liabilities of approximately RMB96.8 million as compared to the respective balances as at 31 December 2018. The net gearing ratio, calculated by total borrowings less cash over total equity, as at 30 June 2019 was approximately 104.9%, compared with the gearing ratio of approximately 80.1% as at 31 December 2018.

31 December 2018 vs 31 December 2017

Total assets of the Group were approximately RMB4,883.2 million as at 31 December 2018, representing an increase of approximately 21.1% as compared to that as at 31 December 2017.

Non-current assets of the Group as at 31 December 2018 mainly consist of (i) PPE, (ii) intangible assets and goodwill, and (iii) other non-current assets. As at 31 December 2018, (i) PPE and (ii) the intangible assets and goodwill represented approximately 45.4% and 31.6% of the total non-current assets of the Group, respectively.

Current assets of the Group as at 31 December 2018 mainly consist of (i) trade and bill receivables, (ii) inventories, (iii) bank balance and cash, and (iv) other current assets. The trade and bills receivables represented approximately 43.5% of the total current assets of the Group as at 31 December 2018. The Group had bank balance and cash of approximately RMB793.5 million as at 31 December 2018, representing an increase of approximately 156.8% as compared to the balance as at 31 December 2017. Such increase was mainly due to the positive operating cash inflow from (i) increase in trade and bills payables and (ii) increase in advance from customers, and the increase in long term payables of RMB499.6 million from Ningxia Industrial Guide Fund Management Limited.

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Total liabilities of the Group were approximately RMB3,511.4 million as at 31 December 2018, representing an increase of approximately 31.8% as compared to the position as at 31 December 2017. The Group recorded an increase in current liabilities of approximately RMB445.2 million and an increase in non-current liabilities of approximately RMB403.0 million as compared to the respective balances as at 31 December 2017, as a result of, among other thing, the increase in trade and bills payable and long term payables. The net gearing ratio, calculated by total borrowings less cash over total equity, as at 31 December 2018 was approximately 80.1%, compared with the gearing ratio of approximately 76.8% as at 31 December 2017.

The equity attributable to owners of the Company (“NAV”) slightly decreased by approximately 1.2% from approximately RMB1,180.4 million as at 31 December 2017 to approximately RMB1,166.1 million as at 31 December 2018 and further decreased to approximately RMB1,058.2 million as at 30 June 2019. The NAV per Share maintained at about HK\$1.29 as at 31 December 2018 and decreased to about HK\$1.173 as at 30 June 2019 (based on the total number of issued Shares of 1,026,263,729 as at the Latest Practicable Date). The Cancellation Price represents a premium of approximately 16.01% and 27.85% over the NAV per Share as at 31 December 2018 and 30 June 2019, respectively.

The following table sets out the assets and liabilities of the Group by segment and other unallocated assets and liabilities as at 31 December 2017 and 2018, as disclosed in the 2018 Annual Report, and as at 30 June 2019 as provided by the management of the Company:

	As at 31 December		As at 30 June
	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
			(unaudited)
<i>Segment assets:</i>			
Petrochemical Business	2,916,893	3,784,174	3,844,135
Healthcare Business	1,055,708	1,095,642	1,158,377
Other unallocated assets	59,268	3,378	588
Total consolidated assets	4,031,869	4,883,194	5,003,100
<i>Segment liabilities:</i>			
Petrochemical Business	1,628,140	2,643,846	2,730,424
Healthcare Business	273,142	248,861	265,175
Guaranteed notes	155,549	-	-
Convertible bonds	560,556	617,784	731,245
Other unallocated liabilities	45,883	923	700
Total consolidated liabilities	2,663,270	3,511,414	3,727,544

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For the Petrochemical Business, its assets as at 30 June 2019 mainly comprised (i) trade and bills receivables, (ii) fixed assets, and (iii) bank balances, bank deposit and cash and its liabilities as at 30 June 2019 mainly comprised (i) trade and bills payables, (ii) long term payables, (iii) deferred income, and (iv) bank borrowings.

For the Healthcare Business, its assets as at 30 June 2019 mainly comprised (i) intangible assets and goodwill, (ii) fixed assets, and (iii) bank balances and cash and its liabilities as at 30 June 2019 mainly comprised (i) short-term loan, and (ii) tax payable and deferred tax liabilities in aggregate.

The zero-coupon RMB-denominated convertible bonds in the principal amount of approximately RMB675.6 million was the consideration for the Hospital Acquisition in 2017.

(iii) Prospects of the Group

Petrochemical Business

According to the 2018 Annual Report, the petrochemical industry in the PRC has achieved steady performance while undergoing industrial restructuring with cutting overcapacity and promoting green development being the top priority for the industry in the future. The growth of coal chemical industry has slowed down due to rising coal prices and stringent safety and environmental protection requirements in the PRC, whereas the growth rate of high-tech, safe and clean high-end chemical products is relatively fast. The petrochemical and coal industries will continue to embrace exceedingly intense competition, dwarfing the revenue, margin and profitability prospects. The oil refining capacity in the PRC was excessive, with an utilisation rate of approximately 70% in 2017, and the excessive capacity of such was expected to further increase in foreseeable future according to an article named “Thoughts on upgrading and transformation of China’s refining industry”^{*} (關於我國煉化產業結構轉型升級的思考) published in the volume 5 in 2018 of the International Petroleum Economics, a magazine organised by CNPC Economics & Technology Research Institute ^(Note) in the PRC. As such, the capital expenditure in the oil refinery industries in the PRC may be more prudent. Therefore, the demand from the Group’s customers on the services and products of the Petrochemical Business, which is generally used in projects in the petrochemical industries, may be reduced. We understand from the management of the Group that the Petrochemical Business is primarily project-base nature and generally require tendering process for obtaining new contracts from its customers. Therefore, save for the existing contracts on hand, there is uncertainty on the number of contracts to be obtained and the size of the amount of revenue to be generated from the Petrochemical Business going forward.

Note: CNPC Economics and Technology Research Institute mainly engaged in analysis of petroleum industry, technology, economy and oil market and regulation. It is a research division directly under China National Petroleum Corporation (CNPC), an integrated international energy company based in the PRC, being the controlling shareholder of PetroChina Company Limited, which is listed on the Hong Kong Stock Exchange, New York Stock Exchange and Shanghai Stock Exchange. According to its annual report, CNPC is the largest oil and gas producer and supplier and one of key market players in the petrochemical industry in the PRC.

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Further, according to the 2019 Asia Petrochemical Outlook Report published by S&P Global Platts ^(Note), slow demand and price hovering would be expected in a number of petrochemical products (i.e. common chemical products made from petroleum, such as aromatics and olefins) in the PRC, which includes the products of the Petrochemical Business's customers. Increasing awareness on environmental protection and policies related to ban of plastic products in the PRC would bring uncertainty to the petrochemical industry in the PRC. As the solution provider of safety and critical control systems in the petrochemical industry, the business outlook of the Petrochemical Business is dependent on the potential market competition faced by the customers of the Group and whether the Group will be able to maintain its relationship with existing customers and to explore new business opportunities.

As discussed in the sub-paragraph headed "Financial performance" above, the Group suffered poor financial results for FY2016, FY2017 and FY2018 mainly due to the Petrochemical Business, being the major revenue stream of the Group, has been recording consecutive years of operating loss attributable to Shareholders for the three years ended 31 December 2018. For FY2018, the Petrochemical Business segment revenue had improved, albeit still being loss making, as compared to its previous two financial years. We noted that the gross profit margin of the Petrochemical Business had significant fluctuations as evident by it being about 30.3%, 11.4%, 13.5% and 30.4% for the year ended 31 December 2015, 2016, 2017 and 2018, respectively. We understand from the management of the Group that the gross profit margin of the Petrochemical Business was mainly affected by (i) the scale of undergoing projects during the relevant period due to economics of scale; (ii) level of competition from other competitors when bidding new projects; and (iii) technical difficulties and quality and type of products required for undergoing projects during the relevant period. Therefore, there is uncertainty on the sustainability of gross profit margin of the Petrochemical Business going forward.

In light of the aforesaid situation of the petrochemical industry, the development and financial performance of the Petrochemical Business would face uncertainties in near future. Hence, the Company announced on 18 December 2018 that a possible disposal of the Petrochemical Business (the "**Possible Disposal**") was being considered. However, the Possible Disposal had not proceeded due to various technical and compliance issues under the Listing Rules. The Joint Offerors intend to continue the existing businesses of the Group and as at the Latest Practicable Date, do not intend to make any major changes to the business of the Group other than a potential separation of the Petrochemical Business with the Healthcare Business to facilitate any further strategic review of these two businesses, exploring new development opportunities and implementing long-term growth strategies alongside the continued review of its strategic options relating to the business structure and/or direction of the Group.

Note: S&P Global Platts is an independent provider of information, benchmark prices and analytics for the energy, commodities, petrochemical and agricultural industries and is a division of Standard & Poor Global Incorporation, which is global leader in financial information research and analytics and listed on the New York Stock Exchange.

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Healthcare Business

According to the National Health Commission of the PRC, the total healthcare expenditure in the PRC in 2018 amounted to RMB5,799.8 billion, representing an increase of approximately 10.3% from RMB5,259.8 billion in 2017. The total healthcare expenditure in 2018 accounted for approximately 6.4% of the GDP for the same year. Further, according to National Bureau of Statistics, the annual disposable income per capita in the PRC and in particular Suzhou, where Yongding Hospital is located, increased from approximately RMB26,955 and RMB41,143 in 2013 to approximately RMB39,251 and RMB63,500 in 2018, representing a CAGR of approximately 7.8% and 9.1%, respectively. According to the China's Office of National Working Commission on Aging, the ratio of elderly population (defined as citizens with age of over 60) to the total population in the PRC and, in particular, Suzhou increased from approximately 15.5% and 23.1%, respectively, at the end of 2013 to approximately 17.9% and 26.0%, respectively, at the end of 2018. The ratio of elderly population to the total population in the PRC is expected to further increase to approximately 25.0% by the end of 2033.

The General Office of the State Council published the Notices on Key Objectives of Strengthening the Reform of the Medical and Healthcare System 2017* (《深化醫藥衛生體制改革2017年重點工作任務的通知》) which provided the measures in the reform of healthcare system in the PRC including, among other things, all PRC public hospitals cannot mark up on the selling price of all drugs, save for Chinese herbal medicines. In November 2018, the Joint Procurement Office led by the State Administration for Medical Insurance published the Papers on Centralized Drug Procurement in “4+7” Cities (the “**Papers**”), which launched the national pilot scheme for tendering with minimum procurement quantities. The Paper listed 31 drugs for this pilot scheme together with an intended quantity commitment for each drug. The manufacturers and importers of the drugs are invited to bid to supply the drugs to public medical institutions in the “4+7” Cities. The move is aimed at reducing drug prices and may potentially impact how generic drugs are priced and procured in China. The Group's Healthcare Business may face pressure if the Papers extend the coverage to other cities in the PRC including Suzhou.

According to the State Council Information Office of the PRC, the PRC government is committed to improving the accessibility and convenience of medical and health resources, and the quality and efficiency of medical services at the same time and aims to accelerate the building of an integrated medical and health service system of good quality and high efficiency and improve the medicine supply system which more and more people are satisfied with their visits to hospitals. The resources of the medical and health-service system keep increasing. From 2011 to 2015, RMB42 billion was invested to support the building of 1,500 county-level hospitals. By the end of 2016, there were over 900,000 medical and health institutions in the PRC, of which over 29,000 were hospitals, and the number of nurses and doctors for every 1,000 people has reached 2.54 and 2.31, respectively. In October 2016, the China National Health and Family Planning Commission of the PRC issued “Healthy China 2030” Planning Outline which outlines 13 core indicators to be reported in 2020 and 2030 to make the people in the PRC healthier. According to the goal of the outline, the number of available registered nurses and doctors for every 1,000 residents should reach 4.7 and 3.0 by 2030, respectively.

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In light of the above, the outlook of the Healthcare Business is generally positive due to the increasing total healthcare expenditure and annual disposable income per capita in the PRC (including Suzhou), while the increasing ratio in elderly population in the PRC (including Suzhou) could boost overall demand of healthcare services in the PRC in the future. However, the Healthcare Business is subject to challenges from the reform of the medical and healthcare system in respect of limiting selling price of drugs, which could cause private hospital, such as Yongding Hospital, face pressure on the growth of revenue and profit margin to compete with public hospitals, and the increasing resources to build more hospitals as well as achieving the goal of the outline in relation to the ratio of medical practitioners to residents in the PRC could intensify the competition of healthcare industry in the future.

In view of the poor financial performance and uncertain prospects of the Petrochemical Business in recent years partly net off by the positive financial performance of the Healthcare Business, no dividends have been paid to the Shareholders in the past six consecutive financial years and the Directors are unable to determine when payment of dividend will be feasible taking into consideration the aforementioned challenge, the Proposal provide an opportunity for the Shareholders to cash out their investments in the Company and to consider other possible investment opportunities.

3. Reasons for and benefits of the Proposal

As set out in the paragraph headed “2. Financial information of the Group” above, the Group recorded net loss attributable to owners of the Company for the three years ended 31 December 2018. As set out in 2017 Annual Report and 2018 Annual Report, the Group has undertaken a detailed strategic review of the Group for the purpose of developing business plans and strategies for its business development in the future, and determining whether any change would be appropriate or desirable in order to optimize its business and had rolled out an internal restructuring program to scale back or dispose certain non-profit making business units. In the past, the Group has disposed of its railway segment and auxiliary power supply systems business as they were considered exceedingly competitive and would be difficult to improve or sustain profitability in 2017. Further, as disclosed in the Company’s announcement dated 18 December 2018, the Company has been contemplating the Possible Disposal and we understand such disposal was contemplated with a view to enhancing the Company’s growth potential and maximizing value for its Shareholders. If the Proposal Disposal was materialised and completed, the Group’s business will solely consist of the Healthcare Business. However, as stated in the paragraph headed “12. Reasons for, and benefits of, the Proposal” in Part VII. - Explanatory Memorandum in this Scheme Document, such disposal has not been proceeded due to various technical and compliance issues under the Listing Rules.

Whilst Brightex and AACL, being the controlling Shareholder and the substantial Shareholder respectively, may continue to explore new development opportunities and to formulate long-term growth strategies, they understand that any such plan may inevitably affect the Company’s short-term growth profile and may result in divergence between the Company’s and Joint Offerors’ view on the Company’s potential long-term value on the one hand, and the investors’ view on the Company’s share price on the other. The Joint Offerors consider that following the implementation of the Proposal, the Joint Offerors and the Company can deploy strategic decisions focused on long-term benefits, free from the regulatory constraints and pressure of market expectations on share price associated with being a publicly listed company.

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With reference to the section headed “Part VII. - Explanatory Memorandum” in this Scheme Document, the Cancellation Price represents a premium of approximately 27.12% over the closing price per Share on 30 April 2019, being the last full trading day prior to the Last Trading Day. The Cancellation Price also represents a premium of 48.51% and 47.06% over the average closing prices for 30 and 90 consecutive trading days up to and including 30 April 2019, respectively.

As discussed in the paragraph headed “4. Evaluation of the Cancellation Price” below, during the period from 2 May 2018 to the Last Trading Day (the “**Pre-Announcement Period**”), the lowest and highest closing prices per Share were approximately HK\$0.91 (on 19 December 2018) and HK\$1.23 (on 6 June 2018), respectively. The Cancellation Price represents premiums of approximately 64.84% and 21.95% over the lowest and highest closing prices, respectively, during the Pre-Announcement Period.

The average daily trading volume of the Shares for the 24 months up to and including 30 April 2019 was approximately 289,529 Shares per day, representing only approximately 0.03% of the issued Shares as at 30 April 2019. The relatively low liquidity in the trading of its Shares makes it difficult for Shareholders to execute substantial on-market disposals without adversely affecting the price of the Shares. The Joint Offerors and the Directors (excluding the Independent Board Committee whose view is contained in the letter from the Independent Board Committee as set out in Part V of the Scheme Document) consider that the Proposal provides the Scheme Shareholders with an opportunity to realise their investment in the Company for cash at a premium without having to suffer any illiquidity discount. The Joint Offerors further consider that the Company’s current listing platform may no longer be able to serve as an effective fund-raising platform for the Company’s business and future growth. As set out in the paragraph headed “7. Trading volume of the Shares” below, we concur that the trading volume of the Shares has been generally thin from the Pre-Announcement Period as the average daily trading volume of the Shares of each month/period has been lower than 0.1% during the Pre-Announcement Period and considered that the Proposal allows the Scheme Shareholders to dispose of their Shares, particularly for those Scheme Shareholders holding a significant number of Shares, without having to suffer significant discount or adversely affecting the market prices of the Shares.

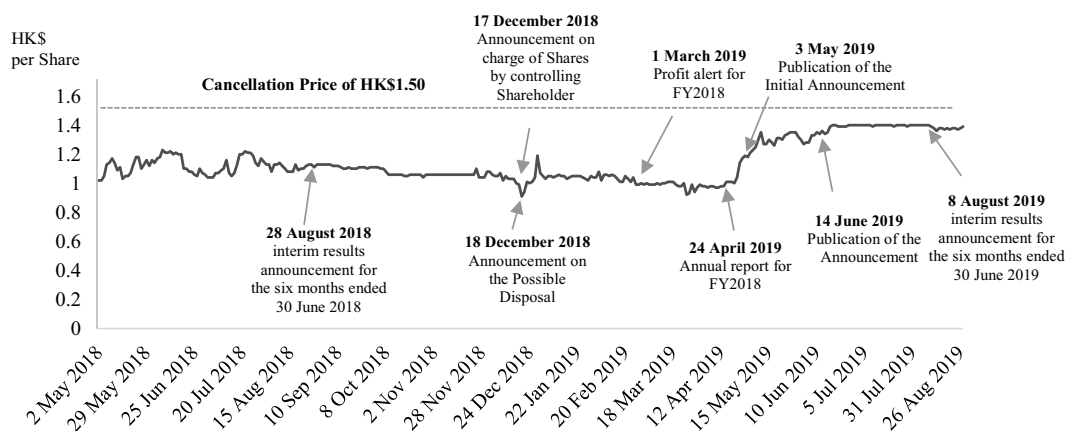
Based on the aforesaid, we consider that the Proposal provides an opportunity for the Scheme Shareholders to dispose of their Shares at a price above the market prices.

4. Evaluation of the Cancellation Price

(i) Share price performance

The chart below set out the movements of the closing prices of the Shares from 2 May 2018 up to the Latest Practicable Date (the “**Review Period**”) and the announcements of the Company relating to certain corporate events that took place during the Review Period. The Review Period, which covers a period of one year prior to the Last Trading Day and up to the Latest Practicable Date, is considered to represent a sufficient period of time to provide a general overview on the recent market performance of the Shares for the purpose of this analysis:

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Source: the website of the Stock Exchange

The closing price of the Share was between HK\$1.02 and HK\$1.23 per Share between 2 May 2018 and 28 August 2018, being the date of publication of interim results announcement for the six months ended 30 June 2018. Subsequent to 28 August 2018 and up to 18 December 2018, being the date of publication of the announcement in relation to the Possible Disposal, the Share price has been generally trending downward and closed between HK\$0.99 and HK\$1.13. Subsequent to 18 December 2018 and up to 24 April 2019, being the date of publication of the annual report for the year ended 31 December 2018, the closing prices of the Share became stagnant and fluctuated within the range from HK\$0.91 to HK\$1.08 per Share, save for a one-day spike to close at HK\$1.19 per Share on 31 December 2018. There was no significant and persistent uprising trend of the Share price after 2 May 2018 and up to 24 April 2019. Subsequently, the Share became more volatile and quickly increased from HK\$1.04 on 24 April 2019 to HK\$1.21 on 2 May 2019, being the Last Trading Day.

During the Pre-Announcement Period, the closing price of the Share was between HK\$0.91 and HK\$1.23 per Share. The Cancellation Price represents premiums of approximately 64.84% and 21.95% over the lowest and highest closing prices, respectively, during the Pre-Announcement Period. The Shares had been suspended from trading with effect from 1:00 p.m. on the 2 May 2019 pending release of the Initial Announcement on 3 May 2019. Trading of the Shares resumed on 6 May 2019 after the publication of the Initial Announcement. Subsequent to the release of the Initial Announcement and up to the release of the Announcement, the closing prices of the Share were between HK\$1.23 and HK\$1.36. Following the release of the Announcement which set out details of the Proposal and up to the Latest Practicable Date, the closing prices of the Share were between HK\$1.35 and HK\$1.40, which was likely be driven by the Proposal.

The Cancellation Price represented a premium of approximately 7.14 % and 64.84% over the highest closing price HK\$1.40 and lowest closing price of HK\$0.91 during the Review Period, respectively. Besides, the closing prices of the Share during the Review Period might reflect the market perception and expectation on the Group's financial performance (it is uncertain as to whether the Share prices will rise to a level over the Cancellation Price in the future) and the Cancellation Price is higher than closing prices of the Share in all trading days during the entire Review Period.

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From the Independent Shareholders' perspective, the Cancellation Price represents an immediate uplift in Shareholder's value as compared to the recent Share prices. We are of the view that the aforesaid surge in Share prices was primarily driven by the announcement of the Proposal, in particular, the Cancellation Price of HK\$1.50 per Scheme Share. The holders of the Scheme Shares should note that the Shares were traded substantially below the Cancellation Price during the Pre-Announcement Period and the prevailing Share prices may not be sustained if the Scheme is not approved or the Proposal otherwise lapses.

The Cancellation Price of HK\$1.50 per Scheme Share represents:

- a premium of approximately 11.94% over the closing price of HK\$1.340 per Share as quoted on 13 June 2019, being the last trading day of the Shares prior to the Announcement Date;
- a premium of approximately 23.97% over the closing price of HK\$1.210 per Share as quoted on the Stock Exchange on the Last Trading Day;
- a premium of approximately 36.86% over the average closing price of approximately HK\$1.096 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 47.78% over the average closing price of approximately HK\$1.015 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 47.49% over the average closing price of approximately HK\$1.017 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 46.63% over the average closing price of approximately HK\$1.023 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 45.49% over the average closing price of approximately HK\$1.031 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 42.45% over the average closing price of approximately HK\$1.053 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 discount of approximately 1.38% to the audited net asset value of the Group (including non-controlling interests) per Share of approximately RMB1.337 (equivalent to approximately HK\$1.521) as at 31 December 2018, based on the 1,026,263,729 Shares in issue as at the Latest Practicable Date;

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- a premium of approximately 16.01% over the audited equity attributable to owners of the Company per Share of approximately RMB1.136 (equivalent to approximately HK\$1.293) as at 31 December 2018, based on the 1,026,263,729 Shares in issue as at the Latest Practicable Date;
- A premium of approximately 16.92% over the Adjusted NAV of the Group per Share of approximately RMB1.1275 (equivalent to approximately HK\$1.2829) as at 30 June 2019, based on the 1,026,263,729 Shares in issue as at the Latest Practicable Date;
- a premium of approximately 7.14% over the closing price of HK\$1.40 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

(ii) *Comparable Companies*

As discussed under the paragraph headed “1. Background information of the Group” above, the Group is mainly engaged in the Petrochemical Business and Healthcare Business. In assessing the fairness and reasonableness of the Cancellation Price, we consider that it is relevant to assess the Cancellation Price by making reference to market valuation for companies listed in Hong Kong which are principally engaged in business similar to those of the Group. On one hand, for the Petrochemical Business, we intended to identify companies (i) with revenue generated from the integration and sales of safety and critical control systems for petrochemical industry or the manufacturing of industrial control valves, oil and gas, biodiesel and coal chemical industries not less than 50% of total revenue for the latest financial year; and (ii) whose shares are listed on the Stock Exchange. However, we note that this is a unique industry among Hong Kong listed companies and therefore, no comparable companies currently listed in the Stock Exchange can be found. As such, the valuation of the Petrochemical Business was determined based on the Petrochemical Business NAV (as defined below). Please see the paragraph headed “5. Illustration of value of the Group by sum-of-the-parts analysis” below.

On the other hand, for comparison analysis on the market value for the Healthcare Business of the Group, we have identified an exhaustive list of companies listed on the Stock Exchange which (i) generated over 50% of their total revenue from healthcare services in the PRC for the latest financial years; and (ii) the provision of the healthcare services are principally by general hospital (綜合醫院).

Based on these criteria, we identified five comparable companies of the Healthcare Business of the Group. Among these comparable companies, Harmonicare Medical Care Holdings (1509.HK) (“**Harmonicare**”), Rici Healthcare Holdings (1526.HK) and Hospital Corporation of China (3869.HK) are excluded for comparison purpose due to their net loss recorded in their latest financial year and thus no P/E ratios are available. We consider that the remaining two comparable companies (the “**Comparable Companies**”) namely China Resources Medical Holdings Co. Ltd. (1515.HK) and Guangdong Kanghua Healthcare Co. Ltd. (3689.HK), are representative and appropriate for comparison purpose. The table below illustrates operational and financial information of the Comparable Companies and the Healthcare Business of the Group as at 31 December 2018:

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Companies	As at 31 December 2018			Number of inpatients during the latest financial year ('000)	Number of outpatients during the latest financial year ('000)	Nature of services	Revenue generated from hospital services in the latest financial year (RMB'000)	% to total revenue from hospital operation in the latest financial year (%)
	Number of hospital(s)	Locations of hospital(s) in the PRC	Number of hospital staff					
China Resources Medical Holdings Co. Ltd. (1515.HK)	47	Beijing, Hebei, Shandong, Jiangsu, Hubei, Henan, Anhui and Guangdong	11,959	248.0	822.4	(i) General healthcare services; hospital management services and sales of pharmaceutical and medical consumables; and (ii) advisory services on medical technology and others	2,028,949	98.5
Guangdong Kanghua Healthcare Co. Ltd. (3689.HK)	3	Guangdong and Chongqing	3,469	66.4	1,650.6	(i) Hospital and healthcare services and hospital management; and (ii) sales of pharmaceuticals	1,639,287	100
Healthcare Business of the Group	1	Suzhou	793	23.2	590.5	(i) Healthcare services; and (ii) sales of pharmaceuticals	467,845	100

Sources: Latest annual reports of the Comparable Companies and the Company

As illustrated above, the scales of operation, number of inpatients and outpatients, and revenue of the Healthcare Business of the Group are smaller than those of the respective Comparable Companies. Notwithstanding the above, the Comparable Companies derived a substantial amount of revenue from hospital operation, healthcare services or sales of pharmaceuticals in the PRC and are of similar business nature of the Healthcare Business of the Group. Hence, we consider appropriate to apply the average price-to-earnings (“P/E”) ratio of the Comparable Companies to the calculation of the Healthcare Business Value (as defined below).

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The table below illustrates market capitalisation and P/E ratio of the five comparable companies as at 30 June 2019:

Comparable companies (stock code)	Market capitalisation as at 30 June 2019 (HK\$' million)	P/E ratio as at 30 June 2019 (times)
China Resources Medical Holdings Co Ltd. (1515.HK)	7,391	14.65
Guangdong Kanghua Healthcare Co Ltd. (3689.HK)	1,689	8.84
Harmonicare (1509.HK)	1,547 ¹	N/A ²
Hospital Corporation of China (3869.HK)	1,935	N/A ²
Rici Healthcare Holdings (1526.HK)	2,149	N/A ²
Comparable Companies:	Average	11.75

Notes:

1. The shares of Harmonicare were suspended since 1 April 2019.
2. The respective P/E ratio is not available due to net loss recorded in their latest financial year.

Sources: Bloomberg and the website of the Stock Exchange

As illustrated above, the P/E ratio of the Comparable Companies were ranged between approximately 8.84 and 14.65 times as at 30 June 2019 and the average P/E ratio was approximately 11.75 times. As discussed under the paragraph headed “5. Illustration of value of the Group” below, we have applied the average P/E ratio of the Comparable Companies to the calculation of the Healthcare Business Value (as defined below).

5. Illustration of value of the Group by sum-of-the-parts analysis

Since (i) the Petrochemical Business generated majority of revenue of the Group, represented approximately 75% of the Group’s total revenue for FY2018; (ii) the Petrochemical Business has been loss making during the three years ended 31 December 2018 and therefore P/E ratio analysis is not applicable; (iii) the Petrochemical Business is a unique industry among Hong Kong listed companies and therefore no direct comparable companies can be found to perform other types of financial analysis; (iv) the segment assets of the Petrochemical Business represented over 75% of total assets of the Group as at 30 June 2019; (v) the segment of the Healthcare Business has been profit making for the two years ended 31 December 2018; and (vi) the Group recorded a net loss attributable to Shareholders for FY2018, we considered appropriate and have performed a calculation of the valuation of the Group (the “**Aggregate Value**”) based on the sum of (i) the segment net asset value of the Petrochemical Business as at 30 June 2019 (the “**Petrochemical Business NAV**”); (ii) the average P/E ratio of the Comparable Companies multiplied by the segment profits of the Healthcare Business attributable to owners of the Company for FY2018 (the

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“**Healthcare Business Value**”); and (iii) the unallocated net liabilities (the “**Unallocated Net Liabilities**”) of the Group (including other unallocated assets and liabilities and convertible bonds) as at 30 June 2019 as set out in sub-paragraph headed “Financial position” above.

Further to the Aggregate Value above, we have also performed a calculation of the adjusted valuation of the Group (the “**Adjusted Aggregate Value**”) based on the sum of (i) the Petrochemical Business NAV adjusted by adding the revaluation surplus arising from the valuation of properties held by the Petrochemical Business segment (i.e. all of the properties set out in the Valuation Report, save for property number 12 as it is held by an entity of the Healthcare Business and currently used for business operation of the Healthcare Business) (the “**PB Properties**”) as at 30 June 2019, and deducting the deferred tax attributable to the PB Properties (the “**Petrochemical Business Adjusted NAV**”); (ii) the Healthcare Business Value; and (iii) the Unallocated Net Liabilities.

The calculation of the Aggregate Value and the Adjusted Aggregate Value is for illustrative purpose only and does not imply a break-up of the two segments of the Group. As set out in the paragraph headed “12. Reasons for, and benefits of, the Proposal” in Part VII. - Explanatory Memorandum in this Scheme Document, the Joint Offerors intend to continue the existing businesses of the Group and as at the Latest Practicable Date, do not have plan to make any major changes to the business of the Group other than a potential separation of the Petrochemical Business with the Healthcare Business. No intention has been stated to sell businesses at the valuations set out below or at any other valuation. The Aggregate Value and the Adjusted Aggregate Value is comprised of the sum of book values or market values and P/E ratio that have been derived using different bases and assumptions as applicable, being (i) book values of the Petrochemical Business at 30 June 2019, (ii) market values of the PB Properties as at 30 June 2019, and (iii) market capitalisation and earnings of the Comparable Companies in respect of the Healthcare Business as at 30 June 2019.

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For the analysis on the Petrochemical Business, we consider that it is relevant to assess the segment value by P/E ratio analysis and net asset value of the segment as they are commonly use in valuation of a company. As discussed above, the P/E ratio analysis is not applicable for the Petrochemical Business given its loss making position and no comparable companies can be identified. Therefore, as an alternative, we appraise the value of the Petrochemical Business with reference to its segment net asset value having considered that the nature of its assets and liabilities as discussed under the sub-paragraph headed “Financial position” above. We consider the Petrochemical Business NAV and the Petrochemical Business Adjusted NAV to determine the value of the Petrochemical Business as a reference for the value of the segment.

For the analysis on the Healthcare Business Value, we believe P/E ratio is preferable because P/E ratio is a widely accepted method in the market to evaluate a profitable business, and it reflects the fundamental view that a company’s value is mainly attributable to what it generates for its shareholders, i.e., earnings. The segment profits of the Healthcare Business attributable to owners of the Company for FY2018 was approximately RMB44.3 million and the average P/E ratio for the Comparable Companies as at the 30 June 2019 was approximately 11.75 times. Accordingly, the Healthcare Business Value is approximately RMB520.7 million.

(i) *Petrochemical Business Adjusted NAV*

The property interests of the Group have been valued by D&P China (HK) Limited (the “**Valuer**”), an independent property valuer. We have conducted an interview with the Valuer to enquire its experience in valuing similar property interests in the PRC and its independence and were given to understand that Mr. Calvin K. C. Chan, CFA, MRICS, MHKIS, MCIREA, RPS (GP), who is a Chartered Surveyor and Registered Professional Surveyor and the person-in-charge and signing of the Valuation Report, has over 20 years’ experience in valuation of properties in Hong Kong and China. Mr. Chan has been admitted to the Hong Kong Institute of Surveyors’ approved List of Property Valuers to undertake valuation for incorporation or reference in Listing Particulars and Circulars and valuation in connection with that takeovers and mergers. We have also reviewed the terms of engagement of the Valuer, in particular to its scope of work. We noted that its scope of work is appropriate to form the opinion required to be given and there are no limitations on the scope of work which might adversely impact on the degree of assurance given by the Valuer in the valuation report set out in Appendix II to this Scheme Document (the “**Valuation Report**”). Hence, it is satisfactory for us to rely on the Valuation Report.

In particular, we have discussed with the Valuer to assess whether the approaches are appropriate for each type of properties stated in the Valuation Report. We have also reviewed and discussed the valuation methodologies adopted for different types of properties and concurred that the methodologies adopted in the Valuation Report are commonly used and reasonable approaches in establishing the market values of the properties stated in the Valuation Report. Taking into consideration of the nature of the properties and that the valuation is conducted in accordance with the aforesaid requirements, we consider that the methodologies and basis adopted by the Valuer for determining the value of the property interests are appropriate and the assumptions made by the Valuer have been made with due care and consideration and made on an objective and a reasonable basis.

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Based on our discussion with the management of the Group, we understand that (i) all of the property interests of the Group were stated at cost basis in accordance with the accounting policy adopted by the Group; (ii) save for properties number 1, 6 and 7 which are currently leased to independent third parties to the Group and treated as PPE under the consolidated statement of financial position as at 30 June 2019, all of the property interests set out in the Valuation Report are currently occupied by the Group as bases of its operation, offices, staff dormitories, construction-in-progress or vacant; (iii) save for property number 12 which is held by an entity of the Healthcare Business, and is currently used for business operation of the Healthcare Business, all of the properties set out in the Valuation Report are currently held by the entities of the Petrochemical Business segment; (iv) majority of the PB Properties in terms of value are currently used for business operation; and (v) the Company do not intend to sell the properties set out in the Valuation Report.

According to the Valuation Report, the market values in existing state of the properties attributable to the Group (including non-controlling interests) as at 30 June 2019 are approximately RMB1,131.5 million, of which the RMB860.5 million and RMB271.0 million are held under Petrochemical Business and Healthcare Business, respectively.

The following table sets out the calculation of the Petrochemical Business Adjusted NAV as at 30 June 2019:

	<i>(RMB'000)</i>
Petrochemical Business NAV	1,113,711.0
Adjustments:	
Add: Revaluation surplus arising from the valuation of the PB Properties attributable to the Company as at 30 June 2019 <i>(Note 1)</i>	120,642.3
Minus: Deferred tax on attributable revaluation surplus of PB Properties <i>(Note 2)</i>	<u>(37,343.5)</u>
Petrochemical Business Adjusted NAV	<u>1,197,009.8</u>

Notes:

1. As advised by the management of the Company, the below set out calculation of revaluation surplus for reference.

	<i>(RMB'000)</i>
Market values of the PB Properties attributable to the Group	860,520.0
Less: Book values of the PB Properties attributable to the Group	(715,977.7)
Less: Non-controlling interests of the PB Properties	<u>(23,900.0)</u>
Revaluation surplus from the valuation of the PB Properties attributable to the Company	<u>120,642.3</u>

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2. Represents deferred tax on temporary differences between the market values of the PB Properties and the corresponding tax base used in computation of taxable profit. Deferred tax adjustment of approximately RMB19.5 million is calculated at tax rates of 15% or 25% for PRC corporate income tax (subject to whether the relevant group company is entitled to preferential tax treatment), while land appreciation tax adjustment of approximately RMB17.8 million is estimated at progressive rates ranging from 30% to 60% (as may be applicable to the relevant properties) of appreciation value with certain allowable deductions according to the relevant PRC tax laws and regulations.

(ii) Aggregate Value

The following table sets out the calculation of the Aggregate Value and Aggregate Value per Share:

	<i>(RMB'000)</i>
Aggregate Value:	
Add: Petrochemical Business NAV	1,113,711.0
Add: Healthcare Business Value	520,654.3
Minus: Unallocated Net Liabilities	<u>(731,357.0)</u>
Total	<u><u>903,008.3</u></u>
Aggregate Value per Share (HK\$) <i>(Note)</i>	1.001

Note:

The Aggregate Value per Share is calculated based on 1,026,263,729 Shares in issue as at the Latest Practicable Date.

(iii) Adjusted Aggregate Value

The following table sets out the calculation of the Adjusted Aggregate Value and Adjusted Aggregate Value per Share:

	<i>(RMB'000)</i>
Adjusted Aggregate Value:	
Add: Petrochemical Business Adjusted NAV	1,197,009.8
Add: Healthcare Business Value	520,654.3
Minus: Unallocated Net Liabilities	<u>(731,357.0)</u>
Total	<u><u>986,307.1</u></u>
Adjusted Aggregate Value per Share (HK\$) <i>(Note)</i>	1.094

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Note:

The Adjusted Aggregate Value per Share is calculated based on 1,026,263,729 Shares in issue as at the Latest Practicable Date.

As illustrated above, the Cancellation Price represented a premium of approximately 49.9% and 37.1% over the Aggregate Value per Share and the Adjusted Aggregate Value per Share, respectively. By using above sum of the parts analysis method, we are not suggesting that these are the valuations ascribed to each of the business segment as there could be many different ways to arrive at their respective valuations for illustrative purpose.

6. Privatisation precedents

We have compared the Proposal to privatisation proposal of the other companies listed on the Stock Exchange. We have sought to identify precedent companies (the “**Privatisation Precedents**”) exhaustively on the website of the Stock Exchange based on the criteria that (i) the offeree company was listed on the Stock Exchange before delisting; (ii) the privatisation proposal was not more than HK\$10.0 billion (so as to exclude the mega precedents which are not comparable to the Proposal); (iii) the privatisation proposal was carried out by way of scheme of arrangement; and (iv) the privatisation Proposal was first announced and successfully completed during the period from 2 May 2017 (being two years prior to the Last Trading Day) up to the Latest Practicable Date. The Privatisation Precedents were comprised of precedent companies with different business nature. As we have not indentified any precedent companies with similar business nature as the Group within the Privatisation Precedents, we have not differentiated the Privatisation Precedents by industrial sector in our analysis. As the companies in the Privatisation Precedents were engaged in different industries as the Group, the Privatisation Precedents are for illustrative purpose only.

The table below illustrates the premiums/discounts of the offer price offered by the Privatisation Precedents over/to the respective last trading day and respective last 30, 60 and 180 trading days average share price prior to the last trading day as well as the reported NAV per share of the Privatisation Precedents in respect of such privatisation proposals:

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Date of initial announcement	Company (stock code)	Business nature	Offer price (HK\$)	Premium of offer price over the share price on the last trading day	Premium of offer price over 30 trading days average share price prior to the last trading day	Premium of offer price over 60 trading days average share price prior to the last trading day	Premium of offer price over 180 trading days average share price prior to the last trading day	Premium/(discount) of offer price over/(to) reported NAV per share
30 October 2018	Advanced Semiconductor Manufacturing Limited (3355.HK)	Manufacturing of semiconductor wafer	1.50	66.7%	99.3%	93.4%	84.2%	83.4%
27 September 2018	Sinotrans Shipping Limited (368.HK)	Operating and management of dry bulk and container shipping business	2.70	50.0%	42.9%	37.8%	28.0%	(25.2%)
7 June 2018	Portico International Holdings (589.HK)	Designing, manufacturing wholesale and retail distribution of fashion apparel and accessories	4.10	50.2%	49.2%	45.2%	49.9%	(9.9%)
10 November 2017	Welling Holding (382.HK)	Manufacturing and distributing of motors and electric components for household appliances	2.06	30.4%	33.8%	35.5%	22.6%	22.6%
8 September 2017	China National Materials Company Limited (1893.HK)	Manufacturing of cement materials and equipment	7.76	19.2%	31.2%	44.9%	67.5%	(23.7%)
3 July 2017	China Assets (Holdings) Limited (170.HK)	Management of investment fund	6.80	61.5%	76.6%	77.1%	73.9%	(53.8%)
19 June 2017	Bloomage BioTechnology Corporation Limited (963.HK)	Manufacturing, development and selling of medical aesthetic products and services	16.30	14.0%	24.4%	30.3%	32.5%	215.3% (Note)
29 May 2017	China Metal International Holdings (319.HK)	Designing, development and manufacturing of customized metal casting	3.01	27.5%	25.9%	22.9%	18.3%	27.5%
			Maximum	66.7%	99.3%	93.4%	84.2%	215.3%
			Minimum	14.0%	24.4%	22.9%	18.3%	(53.8%)
			Average	39.9%	47.9%	48.4%	47.1%	32.0%
			Median	40.2%	38.4%	41.4%	41.2%	8.7%
			Adjusted Maximum (Note)	66.7%	99.3%	93.4%	84.2%	83.4%
			Adjusted Average (Note)	39.9%	47.9%	48.4%	47.1%	5.9%
			Adjusted Median (Note)	40.2%	38.4%	41.4%	41.2%	(5.2%)
			The Proposal	23.97%	47.78%	47.49%	42.45%	27.85%

Source: the website of the Stock Exchange

Note: The premium of offer price over reported net asset value per share of Bloomage BioTechnology Corporation Limited (963.HK) has been excluded from the list of the Privatisation Precedents as it is considered to be an outlier with its offer price represented, in our view, an exceptionally high premium of about 215.3% over its reported net asset value per share.

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As shown in the table above, all of the offer prices of the Privatisation Precedents represent premiums over the then prevailing market prices of the relevant shares prior to the initial announcement of the privatisation over the last trading day/periods indicated, but the magnitude of the premiums varied with the industry where the subject companies operate and the market conditions at the time of privatisation.

The premiums implied by the offer prices in the Privatisation Precedents to the 30, 60 and 180 trading days average share price prior to the last trading day are approximately 47.9%, 48.4% and 47.1%, respectively. Whilst the premiums implied by the Cancellation Price to the 30, 60 and 180 trading days' average Share price prior to the Last Trading Day are approximately 47.78%, 47.49%, and 42.45%, respectively, all fall within the range of the premiums presented by the Privatisation Precedents. The Cancellation Price represents a premium generally above the median and close to the average to its 30, 60 and 180 trading days' average closing price prior to the last trading day of the Privatisation Precedents. However, the premium implied by the Cancellation Price over the Share price of the Last Trading Price is lower than the median and average of that of the Privatisation Precedents but is within the range.

The Cancellation Price represents a premium of approximately 27.85% over the NAV per Share as at 30 June 2019, which is higher than the median and average (excluding the outlier), but lower than the average (including the outlier) of that of the Privatisation Precedents. The premiums implied by the Cancellation Price falls within the range of that of the Privatisation Precedents.

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7. Trading volume of the Shares

The following table sets out the average daily trading volume of the Shares for each month/period and the percentages of such average daily trading volume to the total issued Shares during the period from 2 May 2018 to the Latest Practicable Date:

	Average daily trading volume <i>(Number of Shares)</i>	Approximately % of average daily trading volume to the total issued Shares <i>(Note)</i>
2018		
May	262,191	0.026%
June	205,623	0.020%
July	263,714	0.026%
August	189,957	0.019%
September	35,105	0.003%
October	236,762	0.023%
November	80,545	0.008%
December	142,853	0.014%
2019		
January	23,227	0.002%
February	62,941	0.006%
March	336,476	0.033%
From 1 April to 2 May (being the Last Trading Day)	792,650	0.077%
6 May	2,122,000	0.207%
From 7 May to 31 May	567,444	0.055%
June	913,650	0.089%
July	230,857	0.022%
From 1 August to the Latest Practicable Date	501,263	0.049%

Source: the website of the Stock Exchange

Note: The calculation is based on the average daily trading volume of the Shares divided by the number of total issued Shares as at respective end of each month or as at the Latest Practicable Date, as applicable.

As illustrated above, the average daily trading volume of the Shares in each month/period during the Pre-Announcement Period ranged from approximately 23,227 Shares to 816,474 Shares, representing approximately 0.002% and 0.080% respectively of the total number of Shares in issue as at the respective end of each month. In particular, the trading volume had gradually increased after the Company announced

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the annual results for FY2018 on 21 March 2019 with March 2019 and the period from 1 April to 2 May 2019 recording relatively higher average daily trading volume as compared to the previous months since May 2018.

Trading volume of the Shares increased to 2,122,000 Shares on 6 May 2019, the first full trading day following the publication of the Initial Announcement. Trading volume of the Shares decreased thereafter from 7 May 2019 to 31 May 2019, with an average daily trading volume of approximately 0.055% of the total number of Shares in issue as at 31 May 2019. Trading volume of the Shares increased in June, affected by the release of the Announcement. In July, trading volume decreased again, with an average daily trading volume of approximately 0.022% of the total Shares in issue as at 31 July 2019. From 1 August to the Latest Practicable Date, average daily trading volume increased to 501,263 shares.

As illustrated in the data set out in the table above, the overall liquidity of the Shares during the Review Period was generally low. There has been slight surge since the release of the Initial Announcement, which we consider to be mainly attributable to the Independent Shareholders'/investors' reaction to the Proposal and the Scheme. Given the historical thin trading volume of the Shares, it is uncertain whether there would be sufficient liquidity in the Shares for the Independent Shareholders to dispose a significant number of Shares in the open market without causing an adverse impact on the market price of the Shares. Accordingly, the market trading price of the Shares may not necessarily reflect the proceeds that the Independent Shareholders can receive by the disposal of their Shares in a large volume in the open market. Independent Shareholders should note that the relatively higher level of trading volume subsequent to the Initial Announcement is unlikely to remain sustainable if the Proposal and the Scheme lapse.

OPINION AND RECOMMENDATION

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

- (i) the Group recorded net loss attributable to owners of the Company for the three years ended 31 December 2018 and 6M2019; while the Group recorded loss before tax for the two years ended 31 December 2016 and 2017 and 6M2019 and profit before tax for the year ended 31 December 2018;
- (ii) the prospects of the Group remain uncertain due to the fact that (a) the Petrochemical Business, despite its recently improved performance, would face uncertainties from industrial restructuring and stringent safety and environmental protection requirement and on its financial performance in near future; and (b) notwithstanding the positive outlook of the Healthcare Business, including the increasing elderly population and annual disposable income per capita in the PRC (including Suzhou) and opportunity arising from the reform of the medical and healthcare system in the PRC, the growth and profitability of the Healthcare Business is dependent on the challenges from the government policy regarding the healthcare reform, increasing resources to build more hospital and increase in ratio of medical practitioners to residents in the PRC, which could intensify the competition of healthcare industry in the future;
- (iii) there is no guarantee that the Company will declare dividend in the future based on its history that no dividend has been declared in the past six consecutive financial years;

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- (iv) the Cancellation Price was above the closing prices of the Shares at all times during the entire Review Period; the recent increase in price of the Shares was possibly due to the Proposal, which may not be sustainable in the absence of the Proposal;
- (v) the thin trading liquidity of the Shares (with average daily trading volume below 1.0% of the total issued Shares during the Review Period) makes it difficult for the Shareholders to dispose of a significant number of Shares in the open market without causing an adverse impact on the market price level of the Shares and therefore the Proposal offers a cash exit opportunity for the Independent Shareholders to release their holdings amid thin trading liquidity and weak price performance of the Shares;
- (vi) the Cancellation Price represents premiums of approximately 47.78%, 46.63% and 42.45% over the average closing prices of the Shares for the periods of 30, 90 and 180 trading days up to and including the Last Trading Day, respectively; and
- (vii) the Cancellation Price represents a premium of approximately 16.01% and 27.85% over the equity attributable to owners of the Company per Share as at 31 December 2018 and 30 June 2019 of approximately HK\$1.293 per Share and HK\$1.173, respectively.

Further to the above, we have also considered, for illustration purpose,

- (i) the premiums represented by the Cancellation Price over the average closing prices of the Shares for the periods of 30, 90 and 180 trading days and up to and including the Last Trading Day are all within the ranges and generally above the median and close to the average of those of the Privatisation Precedents;
- (ii) the Cancellation Price represents a premium of approximately 49.9% and 37.1% over the Aggregate Value per Share and the Adjusted Aggregate Value per Share, respectively, based on sum-of-the-parts analysis; and
- (iii) the premium that represented by the Cancellation Price over the equity attributable to owners of the Company per Share as at 31 December 2018 and 30 June 2019 are higher than the median and average (excluding the outlier), but lower than the average (including the outlier) and within the range of those of the Privatisation Precedents.

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

Yours faithfully,

For and on behalf of

ELSTONE CAPITAL LIMITED

Ringo Kwan **Fanny Lee**

Managing Director *Managing Director*

Mr. Ringo Kwan and Ms. Fanny Lee have been responsible officers of Type 6 (advising on corporate finance) regulated activity under the SFO since 2005 and 2006, respectively. Both of them have participated in the provision of independent financial advisory services for various types of transactions involving companies listed in Hong Kong.

This Explanatory Memorandum constitutes the statement required under Order 102, rule 20 (4) (e) of the Rules of the Grand Court of the Cayman Islands 1995 (revised).

**SCHEME OF ARRANGEMENT
TO CANCEL ALL THE SCHEME SHARES
IN EXCHANGE FOR THE CANCELLATION PRICE FOR
EACH SCHEME SHARE**

1. INTRODUCTION

On 14 June 2019, the Joint Offerors and the Company jointly announced that on 14 June 2019, the Joint Offerors had requested the Board to put forward a proposal to the holders of the Scheme Shares for the privatisation of the Company by way of a scheme of arrangement under Section 86 of the Companies Law involving the cancellation of the Scheme Shares and, in consideration thereof, the payment to the Scheme Shareholders of the Cancellation Price in cash for each Scheme Share, and the withdrawal of the listing of the Shares on the Stock Exchange.

If the Proposal is approved and implemented, under the Scheme, the issued share capital of the Company will, on the Effective Date of the Scheme, be reduced by the cancellation of the Scheme Shares. Upon such reduction, the issued share capital of the Company will be increased to its former amount by the issuance at par to either Brightex (in the event the AACL Payment does not occur) or AACL (in the event the AACL Payment occurs) only, credited as fully paid, of the aggregate number of Shares as is equal to the number of Scheme Shares cancelled. The credit arising in the Company's books of account as a result of the issued capital reduction will be applied in paying up in full at par the new Shares so issued, credited as fully paid, to Brightex or AACL only (as the case may be). The Shares equal to the number of Scheme Shares cancelled and to be issued to Brightex (assuming the AACL Payment does not occur) will be charged in favour of AACL as security under the Scheme Facility Agreement.

The purpose of this Explanatory Memorandum is to explain the terms and effects of the Proposal, which is to be implemented by the Scheme, and to provide the holders of Scheme Shares with other relevant information in relation to the Scheme, in particular, to provide the intentions of the Joint Offerors with regard to the Group and the shareholding structure of the Company before and after the Scheme and the Proposal.

Particular attention of the holders of Scheme Shares is drawn to the following sections of this Scheme Document: (a) a letter from the Board set out in Part IV. of this Scheme Document; (b) a letter from the Independent Board Committee set out in Part V. of this Scheme Document; (c) a letter from, the Independent Financial Adviser set out in Part VI. of this Scheme Document; and (d) the terms of the Scheme set out in Appendix IV. to this Scheme Document.

2. TERMS OF THE PROPOSAL

The Proposal is to be implemented by way of the Scheme under Section 86 of the Companies Law.

Cancellation Price

Under the Scheme, the Scheme Shareholders will receive from the Joint Offerors the Cancellation Price of HK\$1.50 in cash for each Scheme Share as consideration for the cancellation of the Scheme Shares held as at the Effective Date.

Scheme Shareholders whose names appear in the register of members of the Company as at the record date for entitlement to a dividend (if any) declared by the Company on or before the Effective Date will be entitled to receive such dividend (if any).

The Board did not recommend the distribution of final dividend for the year ended 31 December 2018 nor interim dividend for the six months ended 30 June 2019.

As at the Latest Practicable Date, the authorised share capital of the Company was HK\$30,000,000 divided into 3,000,000,000 Shares, and the Company had 1,026,263,729 Shares in issue. As at the Latest Practicable Date, the Scheme Shares, comprising 261,332,433 Shares, represent approximately 25.46% of the issued share capital of the Company.

As at the Latest Practicable Date, save for the 1,026,263,729 issued Shares and the Convertible Bonds, the Company does not have any other outstanding options, warrants, derivatives or securities convertible into Shares and has no other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in issue.

After the Scheme becomes effective, the listing of the Shares on the Stock Exchange will be withdrawn. The Proposal is conditional upon the fulfillment or waiver, as applicable, of the Conditions as described in the section headed “3. *Conditions of the Proposal and the Scheme*” in this Explanatory Memorandum. All of the Conditions must be fulfilled or waived, as applicable, on or before the Long Stop Date, failing which the Proposal and the Scheme will lapse. The Company has no right to waive any of the Conditions. Further announcement(s) on any changes regarding the timetable of the Scheme will be made as and when necessary.

If the Proposal does not become unconditional, the Company has no intention to seek the immediate withdrawal of the listing of the Shares on the Stock Exchange.

Settlement of the Cancellation Price to which any Scheme Shareholder is entitled under the Scheme will be implemented in full in accordance with the terms of the Scheme without regard to any lien, right of set-off, counterclaim or other analogous right to which Brightex or AACL (as the case may be) may otherwise be, or claim to be, entitled against any such Scheme Shareholder.

3. CONDITIONS OF THE PROPOSAL AND THE SCHEME

The implementation of the Proposal is, and the Scheme will become effective and binding on the Company and all Scheme Shareholders subject to the fulfilment or waiver (as applicable) of the following Conditions:

- 1) the approval of the Scheme (by way of poll) by a majority in number representing 75% in value of the holders of the Scheme Shares (or class of such holders as directed by the Grand Court) present and voting either in person or by proxy at the Court Meeting, provided that:
 - a. the Scheme is approved (by way of poll) by the Independent Shareholders holding at least 75% of the votes attaching to the Scheme Shares held by Independent Shareholders that are cast either in person or by proxy at the Court Meeting; and
 - b. the number of votes cast (by way of poll) by Independent Shareholders present and voting either in person or by proxy at the Court Meeting against the resolution to approve the Scheme at the Court Meeting is not more than 10% of the votes attaching to all Scheme Shares held by all Independent Shareholders;
- 2) the passing of a special resolution by a majority of not less than three-fourths of the votes cast by the Shareholders present and voting in person or by proxy or by duly authorized representative at an EGM to approve and give effect to (i) the reduction of the issued share capital of the Company by the cancellation of the Scheme Shares; (ii) the increase of the issued share capital of the Company to the amount prior to the cancellation of the Scheme Shares by issuing to either Brightex (in the event the AACL Payment does not occur) or AACL (in the event the AACL Payment occurs) such number of new Shares as is equal to the number of Scheme Shares cancelled and (iii) the application of the credit arising in the Company's books of accounts as a result of such issued share capital reduction in paying up in full at par value the new Shares issued to Brightex or AACL (as the case may be), credited as fully paid;
- 3) the sanction of the Scheme (with or without modifications) by the Grand Court and its confirmation of the reduction of the issued share capital of the Company, and the delivery to the Registrar of Companies in the Cayman Islands of a copy of the order of the Grand Court and the minutes approved by the Grand Court in respect of the reduction of the issued share capital of the Company for registration;
- 4) compliance, to the extent necessary, with the procedural requirements and conditions, if any, under Sections 15, 16 and 17 of the Companies Law in relation to the reduction of the issued share capital of the Company;
- 5) all necessary consents (including consents from the relevant lenders) in connection with the Proposal and the withdrawal of listing of Shares from the Stock Exchange which may be required under any existing contractual obligations of the Company being obtained and remained in effect;

- 6) no government, governmental, quasi-governmental, statutory or regulatory body, court or agency in any jurisdiction having taken or instituted any action, proceeding or suit (or enacted, made or proposed, and there not continuing to be outstanding, any statute, regulation, demand or order) that would make the Proposal or the Scheme or its implementation in accordance with its terms void, unenforceable, illegal or impracticable (or which would impose any material and adverse conditions or obligations with respect to the Proposal or the Scheme or its implementation in accordance with its terms), other than such actions, proceedings or suits as would not have a material adverse effect on the legal ability of the Joint Offerors to proceed with the Proposal or the Scheme;
- 7) since the Announcement Date, there having been no adverse change in the business, assets, financial or trading positions, profits or prospects of any member of the Group (to an extent which is material in the context of the Group taken as a whole or in the context of the Proposal); and
- 8) since the Announcement Date, there not having been any instituted or remaining outstanding litigation, arbitration proceedings, prosecution or other legal proceedings to which any member of the Group is a party (whether as plaintiff, defendant or otherwise) and no such proceedings will be threatened in writing against any such member (and no investigation by any government or quasi-governmental, supranational, regulatory or investigative body or court against or in respect of any such member or the business carried on by any such member will be threatened in writing, announced, instituted or remain outstanding by, against or in respect of any such member), in each case which is material and adverse in the context of the Group taken as a whole or in the context of the Proposal.

The Joint Offerors reserve the right to waive Conditions (5) to (8) either in whole or in part, either generally or in respect of any particular matter. Conditions (1), (2), (3) and (4) cannot be waived in any event. Pursuant to Note 2 to Rule 30.1 of the Takeovers Code, the Joint Offerors may only invoke any or all of the Conditions as a basis for not proceeding with the Scheme if the circumstances which give rise to a right to invoke any such Condition are of material significance to the Joint Offerors in the context of the Proposal. All of the Conditions will have to be fulfilled or waived, as applicable, on or before the Long Stop Date, failing which the Proposal and the Scheme will lapse. The Company has no right to waive any of the Conditions.

As at the Latest Practicable Date, Condition (5) has been satisfied. None of the other Conditions have been fulfilled or waived. With respect to Condition (6), based on the facts and circumstances as at the Latest Practicable Date, the Joint Offerors and the Company are not aware of any such actions, proceedings or suits. With respect to Conditions (7) and (8), as at the Latest Practicable Date, the Company is not aware of any such event or circumstance.

Assuming that the above Conditions are fulfilled (or, as applicable, waived in whole or in part), it is expected that the Scheme will become effective on or about Thursday, 24 October 2019 (Cayman Islands time). Further announcements will be made including in particular in relation to (i) the results of the Court Meeting and the EGM and, if all the resolutions are passed at those meetings, (ii) the result of the Grand

Court hearing of the petitions to sanction the Scheme and to confirm the capital reduction, (iii) the Record Date, (iv) the Effective Date and (v) the date of withdrawal of the listing of the Shares on the Stock Exchange as further set out in “*Part III. – Expected Timetable*” of this Scheme Document.

If the Scheme is not approved or the Proposal otherwise lapses, an announcement will be made by the Joint Offerors and the Company.

Shareholders and potential investors should be aware that the implementation of the Proposal and the Scheme are subject to the Conditions being fulfilled or waived, as applicable, and thus the Proposal may or may not be implemented, the Scheme may or may not become effective. Shareholders and potential investors should therefore exercise caution when dealing in the securities of the Company. Persons who are in doubt as to the action they should take should consult their stockbroker, bank manager, solicitor or other professional advisers.

4. UNDERTAKINGS FROM AACL AND AHCL

(a) The 2018 Facility Agreement, the Amendment Agreement to the 2018 Facility Agreement and the AACL Undertaking

On 17 December 2018, AACL (as lender), Araco (as borrower), Brightex (as corporate guarantor) and Mr. Xuan (as personal guarantor) entered into the 2018 Facility Agreement pursuant to which, AACL advanced a loan in the principal amount of HK\$360,000,000 to Araco. On 3 January 2019, Araco executed a share charge to create a charge over 300,000,000 Shares owned by it in favour of AACL as security.

Pursuant to the 2018 Facility Agreement, AACL has the right to exchange in full the outstanding loan amount for the Charged Shares at the exchange price of HK\$1.20 per Share (subject to adjustment) at any time after the utilisation date of the Loan but on or before the final exchange date (i.e. 31 December 2023), and such Exchange Right may be exercised on one occasion. If AACL does not exercise the Exchange Right before 31 December 2023, Araco shall repay the Loan together with all outstanding amounts under the finance documents (including the 2018 Facility Agreement) in full on 31 December 2023.

On 14 June 2019, Araco, AACL, Mr. Xuan and Brightex entered into the Amendment Agreement to the 2018 Facility Agreement to amend, among other things, (a) the exchange price from HK\$1.20 per Share (subject to adjustment) to HK\$0.9 per Share, and (b) the interest rate from zero to 5.8% per annum. If (i) on or prior to the Effective Date, Brightex and/or Mr. Xuan has not deposited an amount equal to US\$18,000,000 into a bank account designated by AACL; or (ii) in the event when there exists any circumstances constituting an Event of Default (to the extent relating to bankruptcy/insolvency of Araco, Mr. Xuan and Brightex only) of the Scheme Facility Agreement, and the purchase price is not paid in accordance with the Sale and Purchase Agreement, in either case, the Amendment Agreement to the 2018 Facility Agreement shall become effective upon issuance of a notice declaring effectiveness of the Amendment Agreement to the 2018 Facility Agreement by AACL. The purpose of the deposit of US\$18,000,000 is to reduce AACL’s outstanding capital investment in the Company. Regardless of whether US\$18,000,000 is deposited with AACL pursuant to the Amendment Agreement to the 2018 Facility Agreement, AACL’s commitment under the

Scheme Facility Agreement will not be affected. As the amendments set out in the Amendment Agreement to the 2018 Facility Agreement relate primarily to the adjustment of the exchange price and the interest payable under the 2018 Facility Agreement, the amendments therein do not affect the terms of the Scheme.

As at the Latest Practicable Date, the amount of loan utilized by Araco under the 2018 Facility Agreement is HK\$360,000,000.

AACL has provided an undertaking that it will not transfer the Exchange Right to any party until after the Effective Date.

(b) The Convertible Bonds and the AHCL Opt-out Undertaking

On 26 July 2017, the Company issued Convertible Bonds in the principal amount of RMB675,588,000 to AHCL, which, based on the initial conversion price of RMB1.0640 (equivalent to approximately HK\$1.21) per share, can be converted into 634,951,127 Shares. As at the Latest Practicable Date, AHCL has not exercised its conversion rights under the Convertible Bonds.

AHCL is an exempted company incorporated in the Cayman Islands with limited liability on 12 February 2014 and is wholly-owned by ACP Fund I. Both AHCL and AACL are ultimately controlled by Mr. Meng Liang. AHCL is a party acting in concert with the Joint Offerors. AHCL has provided an undertaking opting out of the Scheme by waiving its right to receive offer under Rule 13 of the Takeovers Code and it will not exercise its conversion rights under the Convertible Bonds and will not transfer the Convertible Bonds to any party and will not take any action which will enable any other party to convert the Convertible Bonds until after the Effective Date.

5. THE SCHEME CONSORTIUM AGREEMENT, THE PRE-DELISTING SHAREHOLDERS' AGREEMENT, THE SHAREHOLDERS' AND BONDHOLDERS' AGREEMENT AND THE SALE AND PURCHASE AGREEMENT

The Scheme Consortium Agreement

On 14 June 2019 (after trading hours), AACL, Araco, Mr. Xuan and Brightex entered into the Scheme Consortium Agreement, pursuant to which they have agreed, among other things, that:

- 1) AACL (as financier) agrees to provide financing for up to 100% of the consideration required to be paid by Brightex to the Scheme Shareholders pursuant to the Scheme, the issued share capital of the Company will, on the Effective Date, be reduced by the cancellation of the Scheme Shares, but will be increased to its former amount prior to the cancellation of the Scheme Shares by the issue at par to Brightex, credited as fully paid, of the same number of new Shares as the number of Scheme Shares cancelled;
- 2) as further consideration for AACL making available the loan under the Scheme Facility Agreement, Araco, AACL, Mr. Xuan and Brightex have entered into the Amendment Agreement to the 2018 Facility Agreement at the same time as entry of the Scheme Facility Agreement. If (i) on or prior to the Effective Date, Brightex and/or Mr. Xuan

has not deposited an amount equal to US\$18,000,000 into a bank account designated by AACL or (ii) in the event when there exists any circumstance constituting an Event of Default (to the extent relating to bankruptcy/insolvency of Araco, Mr. Xuan and Brightex only) of the Scheme Facility Agreement, and the purchase price is not paid in accordance with the Sale and Purchase Agreement, in either case, the Amendment Agreement to the 2018 Facility Agreement shall become effective upon issuance of a notice declaring effectiveness of the Amendment Agreement to the 2018 Facility Agreement by AACL;

- 3) if, with respect to Brightex, Araco or Mr. Xuan, there exists any circumstance constituting an Event of Default (to the extent relating to his/their bankruptcy/insolvency only) of the Scheme Facility Agreement, AACL shall pay the AACL Payment, subject to compliance with applicable laws, rules and regulations. If AACL makes the AACL Payment, then (i) Brightex agrees that AACL shall have no obligation to fund under the Scheme Facility Agreement and shall not make any drawdown request under the Scheme Facility Agreement; and (ii) the Joint Offerors agree that the issued share capital of the Company will, on the Effective Date, be reduced by the cancellation of the Scheme Shares, but will be increased to its former amount prior to the cancellation of the Scheme Shares by the issue at par to AACL, credited as fully paid, of the same number of new Shares as the number of Scheme Shares cancelled. The reserve created in the Company's books of account as a result of the capital reduction will be applied in paying up in full at par the new Shares so issued to AACL; and
- 4) all decisions relating to the Scheme will be made jointly by AACL and Brightex.

Therefore, Brightex (as a Joint Offeror) has the primary obligation to pay the Cancellation Price and acquire the Scheme Shares. AACL will only step in and pay the Cancellation Price to acquire the Scheme Shares in the event there exists any circumstance constituting an Event of Default (to the extent relating to the bankruptcy/insolvency of Araco, Mr. Xuan and/or Brightex only).

The Pre-Delisting Shareholders' Agreement

On 24 April 2019, AACL, Araco and Brightex entered into the Pre-Delisting Shareholders' Agreement, pursuant to which they have agreed, among other things, that with effect from the date of the Pre-Delisting Shareholders' Agreement up to the Delisting Date:

- 1) (a) AACL and Araco shall each have a reciprocal right of first refusal in respect of any proposed transfer of Shares; (b) AACL and Araco shall each have a reciprocal tag along right to the extent that it or its affiliates proposes to transfer any Shares to any person other than to another party to the Pre-Delisting Shareholders' Agreement or any of its affiliates at any time; and (c) AACL shall have a drag along right if certain conditions are met on 9 September 2021 or when Mr. Xuan ceases to be a director of the Company or senior manager of the Company;
- 2) certain corporate governance matters including composition of the Board; and

- 3) unless with the prior consent of AACL, Araco and Brightex shall not and shall procure that none of their respective affiliates shall, create any encumbrances over any: (a) equity interests of Araco held by Brightex, Mr. Xuan or any of his affiliates or (b) Shares held by Araco, Brightex, Mr. Xuan or any of his affiliates as security in favour of, or to secure obligations owed to, any financiers or any other third party. The Pre-Delisting Pledge Restriction shall expire on the earlier of: (A) 9 September 2021; or (B) the date on which the aggregate number of Shares held by AACL and its affiliates is equal to or less than 82,101,098 Shares, representing approximately 8.0% of the total issued Shares as at the Latest Practicable Date.

The Shareholders' and Bondholders' Agreement

On 14 June 2019 (after trading hours), AACL, Araco, AHCL, Mr. Xuan, Brightex and the Company entered into the Shareholders' and Bondholders' Agreement, pursuant to which they have agreed, among other things, that with effect from and after the Delisting Date:

- 1) (a) the ACP Holders on one hand, and the Management Holders on the other hand, shall each have a reciprocal right of first refusal in respect of any proposed transfer of equity securities of the Company by the other party; (b) each ACP Holder on one hand, and each Management Holder on the other hand, shall have a reciprocal tag along right to the extent that the Transferring Shareholder (as defined in the Shareholders' and Bondholders' Agreement), who could be any ACP Holder or any Management Holder, proposes to transfer any Equity Securities to any person other than to another party to the Shareholders' and Bondholders' Agreement or any of its affiliates at any time; and (c) AACL shall have a drag along right if on 9 September 2021, (i) the ACP Holders together with their respective affiliates still hold not less than 10% of the total share capital of the Company at that time (calculated on an as-converted and as-exchanged basis); or (ii) when Mr. Xuan ceases to be a director of the Company or senior manager of the Company;
- 2) certain corporate governance matters including composition of the Board; and
- 3) unless with the prior consent of AACL, each Management Holders shall not and shall procure that none of their respective affiliates shall, transfer any: (a) equity securities of Araco held by Brightex, Mr. Xuan or any of his affiliates; (b) Shares held by Araco (including the Charged Shares), Brightex, Mr. Xuan or any of his affiliates; or (c) equity securities of Brightex held by Mr. Xuan or any of his affiliates, as security in favour of, or to secure obligations owed to, any financiers or any other third party. The Lock-Up shall expire on the earlier of: (A) the date falling on the fifth anniversary of the Delisting Date; or (B) the date on which the aggregate number of Shares held by ACP Holders and their affiliates (calculated on an as-converted and as-exchanged basis) is equal to or less than 82,101,098 Shares, representing approximately 8.0% of the total issued Shares as at the Latest Practicable Date.

The Pre-Delisting Shareholders' Agreement shall be terminated and be of no further force or effect upon the Delisting Date. For the avoidance of doubt, the Pre-Delisting Shareholders' Agreement shall remain effective in the event the Scheme is not approved or the Proposal otherwise lapses.

The Sale and Purchase Agreement

On 14 June 2019 (after trading hours), AACL, Araco, Mr. Xuan and Brightex entered into the Sale and Purchase Agreement, which shall become effective immediately where there exists any circumstance constituting an Event of Default (to the extent relating to bankruptcy/insolvency of Araco, Mr. Xuan and Brightex only) of the Scheme Facility Agreement and AACL is obligated to pay the Scheme Shareholders the Cancellation Price in cash in accordance with the Scheme Consortium Agreement. Pursuant to the Sale and Purchase Agreement, AACL shall sell, and Mr. Xuan and Brightex shall purchase the new Shares so issued to AACL as a result of the AACL Payment and the cancellation of the Scheme Shares, at a price per Share equal to the Cancellation Price, subject to the terms and conditions therein and provided that any such sale and purchase will complete only after the Delisting Date and in any case before 31 December 2019.

The consideration payable under the Sale and Purchase Agreement will be settled by Brightex and/or Mr. Xuan in cash by internal/own resources or through external means including but not limited to debt or equity fund raising activities.

For the avoidance of doubt, if the Delisting lapses, the AACL Payment arrangement, the Amendment Agreement to the 2018 Facility Agreement and the Sale and Purchase Agreement will terminate automatically.

6. THE SCHEME AND THE COURT MEETING

Pursuant to Section 86 of the Companies Law, where a compromise or an arrangement is proposed between a company and its members or any class of them, the Grand Court may, on the application of the company or any member of the company, order a meeting of the members of the company or class of members, as the case may be, to be summoned in such manner as the Grand Court directs.

It is expressly provided in Section 86 of the Companies Law that if a majority in number representing 75% in value of the members or class of members, as the case may be, present and voting either in person or by proxy at the meeting held as directed by the Grand Court as aforesaid, agree to any compromise or arrangement, the compromise or arrangement shall, if sanctioned by the Grand Court, be binding on all members or class of members, as the case may be, and also on the Company.

7. ADDITIONAL REQUIREMENTS AS IMPOSED BY RULE 2.10 OF THE TAKEOVERS CODE

In addition to satisfying any requirements imposed by law as summarised above, other than with the consent of the Executive to dispense with compliance or strict compliance therewith, Rule 2.10 of the Takeovers Code requires that the Scheme may only be implemented if:

- (a) the Scheme is approved (by way of poll) by at least 75% of the votes attaching to the Scheme Shares held by the Independent Shareholders that are cast either in person or by proxy at the Court Meeting; and
- (b) the number of votes cast (by way of poll) by the Independent Shareholders present and voting either in person or by way of proxy at the Court Meeting against the resolution to approve the Scheme at the Court Meeting is not more than 10% of the votes attaching to all Scheme Shares held by all the Independent Shareholders.

For the purpose of counting the votes for (a) and (b) above, Independent Shareholders comprise all Shareholders as at the Meeting Record Date other than the Joint Offerors and the Joint Offeror Concert Parties. Shareholders that are not Independent Shareholders will be required to abstain from voting at the Court Meeting in accordance with the Takeovers Code.

As at the Latest Practicable Date, the Independent Shareholders held in aggregate 261,082,433 Scheme Shares. On that basis, 10% of the votes attached to Scheme Shares held by all the Independent Shareholders referred to in (b) above therefore represent approximately 26,108,243 Shares as at the Latest Practicable Date.

8. BINDING EFFECT OF THE SCHEME AND THE PROPOSAL

Upon the Scheme becoming effective it will be binding on the Company and all Scheme Shareholders, regardless of how they voted (or whether they voted) at the Court Meeting and EGM.

9. SHAREHOLDING STRUCTURE OF THE COMPANY

As at the Latest Practicable Date, the authorised share capital of the Company was HK\$30,000,000 divided into 3,000,000,000 Shares, and the Company had 1,026,263,729 Shares in issue. As at the Latest Practicable Date, the Scheme Shares, comprising 261,332,433 Shares, represent approximately 25.46% of the issued share capital of the Company.

As at the Latest Practicable Date, (i) Brightex, through Araco, indirectly held 515,696,164 Shares (representing approximately 50.25% of the issued share capital of the Company); (ii) Mr. Xuan, who is a Joint Offeror Concert Party, held 1,000,000 Shares (representing approximately 0.10% of the issued share capital of the Company); (iii) AACL held 248,235,132 Shares (representing approximately 24.19% of the issued share capital of the Company); and (iv) the Ascendent Employee held 250,000 Shares (representing approximately 0.02% of the issued share capital of the Company). All such Shares (except those held by the Ascendent Employee) will not form part of the Scheme Shares and will not be cancelled upon the Effective

Date. All such Shares will not be voted on the Scheme at the Court Meeting. The Shares held by the Ascendent Employee will form part of the Scheme Shares and will be cancelled upon the Effective Date but will not be voted on the Scheme at the Court Meeting.

On the assumption that there is no other change in shareholding of the Company before completion of the Proposal, the table below sets out the shareholding structure of the Company as at the Latest Practicable Date and immediately upon completion of the Proposal:

Shareholders	As at the		Immediately upon completion of		Immediately upon completion of	
	Latest Practicable Date		the Proposal (assuming the		the Proposal (assuming the	
	Approximate %		AACL Payment does not occur)		AACL Payment occurs)	
	of the issued		Approximate %		Approximate %	
	Number of share capital of		of the issued		of the issued	
	Shares	the Company	Shares	share capital of	Shares	share capital of
			Shares	the Company	Shares	the Company
Joint Offerors: ^(Note 2)						
Brightex ^(Note 1)	515,696,164	50.25	777,028,597	75.71	515,696,164	50.25
	(300,000,000 of		(561,332,433 of		(300,000,000 of	
	which are		which are		which are	
	charged in		charged in		charged in	
	favour of		favour of		favour of	
	AACL)		AACL)		AACL)	
AACL	248,235,132	24.19	248,235,132	24.19	509,567,565	49.65
Joint Offeror Concert						
Parties not subject to						
the Scheme: ^(Note 2)						
Mr. Xuan ^(Note 1)	1,000,000	0.10	1,000,000	0.10	1,000,000	0.10
AHCL	0	0	0	0	0	0
Joint Offeror Concert						
Parties subject to the						
Scheme:						
Ascendent Employee ^(Note 2)	250,000	0.02	0	0	0	0
Aggregate number of Shares held by the Joint Offerors and the Joint Offeror Concert Parties	765,181,296	74.56	1,026,263,729	100.00	1,026,263,729	100.00
Independent Shareholders	261,082,433	25.44	-	-	-	-
Total number of Shares	1,026,263,729	100.00	1,026,263,729	100.00	1,026,263,729	100.00
			^(Note 3)		^(Note 3)	
Total number of Scheme Shares	261,332,433	25.46	-	-	-	-

Notes:

1. Brightex, through Araco, indirectly held 515,696,164 Shares as at the Latest Practicable Date, in which 300,000,000 Shares are charged by Araco in favour of AACL as security under the 2018 Facility Agreement. The 261,332,433 new Shares to be issued to Brightex (assuming the AACL Payment does not occur) will be charged in favour of AACL as security under the Scheme Facility Agreement. As at the Latest Practicable Date, Brightex is wholly-owned by Mr. Xuan.
2. Shares in which the Joint Offerors and the Joint Offeror Concert Parties are interested (except those held by the Ascendent Employee) will not form part of the Scheme Shares and will not be cancelled.

The Shares held by the Ascendent Employee were purchased before she became an employee of Ascendent Investment Consulting (Shanghai) Co., Ltd. (which is wholly-owned by Ascendent Capital Partners (Asia) Limited) and before the Relevant Period.

3. Under the Scheme, the issued share capital of the Company will, on the Effective Date, be reduced by the cancellation of the Scheme Shares. Taking into account the AHCL Opt-out Undertaking, the Convertible Bonds will not be exercised before the Effective Date and the assumption that there is no other change in shareholding of the Company before completion of the Proposal, forthwith upon such reduction, the issued share capital of the Company will be increased to its former amount prior to the cancellation of the Scheme Shares by the issue at par to either Brightex (in the event the AACL Payment does not occur) or AACL (in the event the AACL Payment occurs) only, credited as fully paid, of the same number of new Shares as the number of the Scheme Shares cancelled. The credit arising in the Company's books of account as a result of the issued capital reduction will be applied in paying up in full at par the new Shares so issued, credited as fully paid, to Brightex or AACL only (as the case may be). The Shares equal to the number of Scheme Shares cancelled and to be issued to Brightex (assuming the AACL Payment does not occur) will be charged in favour of AACL as security under the Scheme Facility Agreement.
4. The percentages of the Shares are rounded to the nearest 2 decimal places, and the total number of the percentages may not add up to 100% due to rounding.

By reason of it being the financial adviser to the Joint Offerors in connection with the Proposal, Somerley and relevant members of the Somerley group are presumed to be acting in concert with the Joint Offerors in accordance with class (5) of the definition of "acting in concert" in the Takeovers Code. As at the Latest Practicable Date, members of the Somerley group did not beneficially own, control or have direction over any Shares.

Immediately following the Effective Date and the withdrawal of listing of the Shares on the Stock Exchange, the Joint Offerors and the Joint Offeror Concert Parties (excluding the Ascendent Employee) will hold 100% of the issued share capital of the Company, on the assumption that there is no other change in shareholding in the Company before completion of the Proposal.

As at the Latest Practicable Date, (i) save for the 1,026,263,729 issued Shares, the Company does not have any other securities in issue; (ii) and, save for the Convertible Bonds as disclosed under sub-section (b) of the section headed "4. *Undertakings from AACL and AHCL*" in this Explanatory Memorandum, the Company does not have any other outstanding options, warrants, derivatives or securities convertible into Shares.

Aggregate value of the Proposal

On the assumption that no further Shares are issued before the Record Date and taking into consideration the AACL Undertaking and the AHCL Opt-out Undertaking, the Scheme Shares comprise 261,332,433 Shares which represent approximately 25.46% of the issued share capital of the Company as at the Latest Practicable Date and the amount of cash required for the Proposal is approximately HK\$391,998,649.50 based on the Cancellation Price.

10. FINANCIAL RESOURCES

On the assumption that no further Shares are issued before the Record Date and taking into consideration the AACL Undertaking and the AHCL Opt-out Undertaking, the Scheme Shares comprise 261,332,433 Shares which represent approximately 25.46% of the issued share capital of the Company as at the Latest Practicable Date and the amount of cash required for the Proposal is approximately HK\$391,998,649.50 based on the Cancellation Price.

Brightex is financing the funds required for the Proposal by the loan facility granted by AACL under the Scheme Facility Agreement which is in turn funded by a letter of credit issued by a bank in favour of AACL (the “**Letter of Credit**”). AACL Payment obligations, if triggered, would also be funded by the Letter of Credit. For the avoidance of doubt, the Scheme Shareholders will be paid under the Scheme, if approved, either (i) by Brightex by utilising the facility pursuant to the Scheme Facility Agreement; or (ii) by AACL directly by utilising the Letter of Credit in the event the AACL Payment occurs.

Somerley, the financial adviser to the Joint Offerors, is satisfied that sufficient financial resources are available to the Joint Offerors for discharging their obligations in respect of the full implementation of the Scheme in accordance with its terms.

11. COMPARISON OF VALUE

The Cancellation Price of HK1.50 per Scheme Share represents:

- a premium of approximately 11.94 % over the closing price of HK\$ 1.340 per Share as quoted on 13 June 2019, being the last trading day of the Shares prior to the Announcement Date;
- a premium of approximately 23.97% over the closing price of HK\$1.210 per Share as quoted on the Stock Exchange on the Last Trading Day;
- a premium of approximately 36.86% over the average closing price of approximately HK\$1.096 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 47.78% over the average closing price of approximately HK\$1.015 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 47.49% over the average closing price of approximately HK\$1.017 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 46.63% over the average closing price of approximately HK\$1.023 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 45.49% over the average closing price of approximately HK\$1.031 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 42.45% over the average closing price of approximately HK\$1.053 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 discount of approximately 1.38% to the audited net asset value of the Company per Share of approximately RMB1.337 (equivalent to approximately HK\$1.521) as at 31 December 2018, based on the 1,026,263,729 Shares in issue as at the Latest Practicable Date;
- a premium of approximately 16.01% over the audited equity attributable to owners of the Company per Share of approximately RMB1.136 (equivalent to approximately HK\$1.293) as at 31 December 2018, based on the 1,026,263,729 Shares in issue as at the Latest Practicable Date;
- a premium of approximately 16.92% over the Adjusted NAV of the Group per Share of approximately RMB1.1275 (equivalent to approximately HK\$1.2829) as at 30 June 2019, based on the 1,026,263,729 Shares in issue as at the Latest Practicable Date; and
- a premium of approximately 7.14% over the closing price of HK\$1.400 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

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 trading multiples of comparable companies listed on the Stock Exchange and with reference to other privatization transactions in Hong Kong in recent years.

12. REASONS FOR, AND BENEFITS OF, THE PROPOSAL

The Proposal will allow the Company more freedom for implementing its long-term growth strategies.

The Group is engaged in (i) the provision of safety and critical control system and control valves specialized for petrochemical industries, along with related maintenance and engineering services (collectively, the “**Petrochemical Business**”); and (ii) hospital services business in Suzhou, the PRC.

It was disclosed in the annual report of the Company for the financial year ended 31 December 2018 that, the Group has undertaken a detailed strategic review of the Group for the purpose of developing business plans and strategies for its business development in the future, and determining whether any change would be appropriate or desirable in order to optimize its business.

In this regard and as disclosed in the Company's announcement dated 18 December 2018, the Company has been contemplating a disposal of the Petrochemical Business (the "**Possible Disposal**"). The Petrochemical Business has been recording net losses since 2015 and up to 2018. The Possible Disposal was contemplated with a view to enhancing the Company's growth potential and maximising value for its Shareholders. However, due to various technical and compliance issues under the Listing Rules, as stated in the announcement made by the Company dated 18 December 2018, the Possible Disposal has not proceeded.

Whilst Brightex and AACL, being the controlling Shareholder and the substantial Shareholder respectively, may continue to explore new development opportunities and to formulate long-term growth strategies, they understand that any such plan may inevitably affect the Company's short-term growth profile and may result in divergence between the Company's and Joint Offerors' view on the Company's potential long-term value on the one hand, and the investors' views on the Company's share price on the other. The Joint Offerors consider that following the implementation of the Proposal, the Joint Offerors and the Company can deploy strategic decisions focused on long-term benefits, free from the regulatory constraints and pressure of market expectations on share price associated with being a publicly listed company.

Due to the relatively low liquidity in the trading of its Shares as discussed below, the Joint Offerors consider that the Company's current listing platform may no longer be able to serve as an effective fund-raising platform for the Company's business and future growth.

The Proposal also represents a good opportunity for the Scheme Shareholders to realize their investment with a significant premium.

The Cancellation Price of HK1.50 per Scheme Share represents a premium of approximately 27.12% over the closing price per Share on 30 April 2019, being the last full trading day prior to the issuance of the Initial Announcement. The Cancellation Price also represents a premium of approximately 48.51% and 47.06% over the average closing prices of approximately HK\$1.01 and approximately HK\$1.02 per Share for 30 and 90 consecutive trading days up to and including 30 April 2019, respectively. The average daily trading volume of the Shares for the 24 months up to and including 30 April 2019 was approximately 289,529 Shares per day, representing only approximately 0.03% of the issued Shares as at 30 April 2019. The relatively low trading liquidity of the Shares makes it difficult for Shareholders to execute substantial on-market disposals without adversely affecting the price of the Shares. The Joint Offerors and the Directors (excluding the Independent Board Committee whose view is contained in the Letter from the Independent Board committee set out in Part V. of this Scheme Document) consider that the Proposal provides the Scheme Shareholders with an opportunity to realise their investment in the Company for cash at a premium without having to suffer any illiquidity discount.

Intentions of the Joint Offerors in relation to the Group

The Joint Offerors intend to continue the existing businesses of the Group and as at the Latest Practicable Date, do not have plan to make any major changes to the business of the Group other than a potential separation of the Petrochemical Business with the hospital services business (including but not limited to the Possible Disposal) to facilitate any further strategic review of these two businesses, exploring new development opportunities and implementing long-term growth strategies alongside the continued review of its strategic options relating to the business, structure and/or direction of the Group.

In the past, the Company has explored opportunity to enhance its financial flexibility by restructuring its assets such as the disposal of certain loss-making subsidiaries as disclosed in the announcement of the Company dated 26 June 2017 and the Possible Disposal. The Joint Offerors may continue to explore the possibility of realigning or redeploying the assets and/or businesses of the Group and assess suitable opportunities to enhance the financial flexibility and/or rationalise the businesses of the Group, which may involve divestments and/or securitisation of existing investments and/or fixed and other types of assets of the Group. Any disposal or redeployment of assets or businesses of the Group in the future, if any, will be in compliance with the constitutional documents of the Group and the Takeovers Code (if applicable). The Joint Offerors have no intention of making any significant changes to employees of the Group as a result of the implementation of the Proposal.

13. INFORMATION OF THE GROUP AND THE JOINT OFFERORS**Information on the Company and the Group**

The Company is an investment holding company and the Group is engaged in the (i) provision of safety and critical control system and controls valves specialized for petrochemical industries, along with related maintenance and engineering services; and (ii) hospital services business in Suzhou, the PRC.

Information on Brightex

Brightex was incorporated in the British Virgin Islands with limited liability. Brightex is the indirect owner of 515,696,164 Shares as at the Latest Practicable Date. As at the Latest Practicable Date, Brightex is wholly-owned by Mr. Xuan.

Information on Mr. Xuan

Mr. Xuan, aged 50, is the Group's founder, executive Director and Chairman of the Company and the sole director of Araco and Brightex respectively. Mr. Xuan graduated from Renmin University of China (中國人民大學) with a bachelor's degree in international politics. He is an incumbent director of Yabuli Entrepreneur Association and Deputy Chairman of China Instrument and Control Society. Mr. Xuan is also one of the winners of Ernst & Young Entrepreneur of The Year 2009 China. Mr. Xuan is also a director and deputy chairman of Guangdong Huatie Tongda High-speed Railway Equipment Corporation (廣東華鐵通達高鐵裝備股份有限公司) (formerly known as Guangdong Kaiping Chunhui Co., Ltd. (廣東開平春暉股份有限公司)), which is a company listed on

the Shenzhen Stock Exchange (Stock Code: 000976). He has extensive experience in management, administration and business development in different industries including industrial automation, biotechnology, telecommunication and trading in the PRC. He previously served as General Manager of Beijing Consen Automation Control Co., Ltd. (北京康吉森自動化設備技術有限責任公司), etc.

Information on AACL

AACL is an exempted company incorporated with limited liability in the Cayman Islands on 1 April 2016, which is a direct wholly-owned subsidiary of ACP Fund II. The general partner of ACP Fund II is Ascendent Capital Partners II GP, L.P, and its general partner is Ascendent Capital Partners II GP Limited. ACP Fund II is advised by Ascendent Capital Partners (Asia) Limited and ultimately controlled by Ascendent Capital Partners II GP Limited, which is ultimately owned by Mr. Meng Liang. Ascendent Capital Partners (Asia) Limited is a private equity investment management firm focused on Greater China-related investment opportunities, managing capital for global renowned institutional investors including sovereign wealth funds, endowments, pensions and foundations.

14. WITHDRAWAL OF LISTING OF SHARES

Upon the Effective Date, all Scheme Shares will be cancelled and the share certificates for the Scheme Shares will thereafter cease to have effect as documents or evidence of title.

The Company will apply to the Stock Exchange for the withdrawal of the listing of the Shares on the Stock Exchange in accordance with Rule 6.15 of the Listing Rules immediately following the Effective Date.

A detailed timetable of the Proposal and the Scheme has been included in Part III. of this Scheme Document, which will also contain, among other things, further details of the Scheme. Dealings in the Shares on the Stock Exchange are expected to cease after 4:00 p.m. on Thursday, 10 October 2019, and the listing of the Shares on the Stock Exchange is expected to be withdrawn at 4:00 p.m. on Monday, 28 October 2019. An announcement of the exact dates of the last day for dealing in the Shares on the Stock Exchange and the day on which the Scheme and the withdrawal of the listing of Shares on the Stock Exchange will become effective will be made by the Company.

15. IF THE SCHEME IS NOT APPROVED OR THE PROPOSAL LAPSES

The Scheme will lapse if any of the Conditions has not been fulfilled or waived, as applicable, on or before the Long Stop Date. The listing of the Shares on the Stock Exchange will not be withdrawn if the Scheme does not become effective or the Proposal otherwise lapses.

If the Scheme is not approved or the Proposal otherwise lapses, there are restrictions under the Takeovers Code on making subsequent offers, to the effect that neither the Joint Offerors nor any person who acted in concert with either of them in the course of the Proposal (nor any person who is subsequently acting in concert with any of them) may within 12 months from the date on which the Scheme is not approved or the Proposal otherwise lapses announce an offer or possible offer for the Company, except with the consent of the Executive.

If the Independent Board Committee or the Independent Financial Adviser does not recommend the Proposal, and the Scheme is not approved, all expenses incurred by the Company in connection therewith shall be borne by the Joint Offerors in accordance with Rule 2.3 of the Takeovers Code.

16. OVERSEAS SHAREHOLDERS

The making and implementation of the Proposal to the holders of the Scheme Shares who are not resident in Hong Kong may be subject to the laws of the relevant jurisdictions in which such holders of the Scheme Shares are located.

Such overseas holders of the Scheme Shares should inform themselves about and observe any applicable legal, tax or regulatory requirements. It is the responsibility of any overseas holders of the Scheme Shares, wishing to take an action in relation to the Proposal, respectively, to satisfy themselves as to the full observance of the laws of the relevant jurisdiction in connection therewith, including the obtaining of any governmental, exchange control or other consents which may be required, or the compliance with any other necessary formalities and the payment of any issue, transfer or other taxes in such jurisdiction.

Any acceptance by such overseas holders of the Scheme Shares will be deemed to constitute a representation and warranty from such persons to the Company, the Joint Offerors and their respective advisers, that those laws and regulatory requirements have been complied with. If such overseas Shareholders are in doubt as to their position, they should consult their professional advisers.

As at the Latest Practicable Date, based on the record in the Company's register of members, there were (i) one Shareholder whose registered address was in Macau and held 31,000 Shares and (ii) five Shareholders whose registered addresses were in the PRC and held 4,919,000 Shares, representing approximately 0.003% and 0.479% respectively of the total issued share capital of the Company.

The Company has been advised by the local counsel in the aforementioned jurisdictions that there is no restriction under the respective laws or regulations of those jurisdictions against extending the Scheme or despatching this Scheme Document together with the proxy forms to those overseas Shareholders. The Scheme will apply to and this Scheme Document together with the proxy forms will be despatched to those overseas Shareholders.

Shareholders who are residents in the PRC or Shareholder(s) with a registered address in the PRC shall be responsible for obtaining the required approvals, consents, permits, authorizations and order from all relevant government authorities in the PRC, including but not limited to, the State Administration of Foreign Exchange, before participating in the Scheme and receiving the Cancellation Price in the PRC. This statement does not constitute any investment advice to citizens of the PRC, or nationals with permanent residence in the PRC, or to any corporation, partnership, or other entity incorporated or established in the PRC.

17. GENERAL

The Joint Offerors have appointed Somerley as their financial adviser in connection with the Proposal.

Mr. Xuan (an executive Director and the sole director of the Brightex) is regarded as being interested in the Proposal, and therefore has abstained from voting in respect of the board resolutions of the Company in relation to the Proposal. The Directors (excluding members of the Independent Board Committee whose view is contained in the letter from the Independent Board Committee set out in Part V. of this Scheme Document) believe that the terms of the Proposal are fair and reasonable and in the interests of the Shareholders as a whole.

No irrevocable commitment from the Independent Shareholders to vote for or against the Scheme has been received by Joint Offerors or the Joint Offeror Concert Parties, as at the Latest Practicable Date.

Save for the Proposal, the Scheme Consortium Agreement, the Convertible Bonds, the 2018 Facility Agreement (as amended by the Amendment Agreement to the 2018 Facility Agreement), the AACL Undertaking, the AHCL Opt-out Undertaking, the Scheme Facility Agreement, the Pre-Delisting Shareholders' Agreement, the Shareholders' and Bondholders' Agreement and the Sale and Purchase Agreement, there are no arrangements (whether by way of option, indemnity or otherwise) in relation to the Shares or the shares of each of the Joint Offerors between the Joint Offerors or any of the Joint Offeror Concert Parties and any other person which might be material to the Proposal.

Save for the Scheme Facility Agreement, the 2018 Facility Agreement, the Amendment Agreement to the 2018 Facility Agreement and the AACL Undertaking, the AHCL Opt-out Undertaking, the Scheme Consortium Agreement, the Pre-Delisting Shareholders' Agreement, the Shareholders' and Bondholders' Agreement and the Sale and Purchase Agreement, there is no understanding, arrangement or agreement or special deal between (1) any Shareholder; and (2)(a) the Joint Offerors and Joint Offeror Concert Parties, or (b) the Company, its subsidiaries or associated companies.

Associates of the Joint Offerors and the Company (as defined in the Takeovers Code, including Shareholders holding 5% or more of the relevant securities (as defined in paragraphs (a) to (d) in Note 4 to Rule 22 of the Takeovers Code) of any of the Joint Offerors and the Company) are hereby reminded to disclose their dealings in any securities of the Company under Rule 22 of the Takeovers Code during the offer period.

18. REGISTRATION AND PAYMENT

Assuming that the Record Date falls on Thursday, 24 October 2019, it is proposed that the register of members of the Company will be closed from Friday, 18 October 2019 (or such other date as Shareholders may be notified by an announcement) onwards in order to determine entitlements under the Scheme. In order to qualify for entitlements under the Scheme, holders of the Scheme Shares should ensure that the transfer of Shares to them are lodged with the Share Registrar at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration in their names or in the names of their nominees before 4:30 p.m. (Hong Kong time) on Thursday, 17 October 2019.

Payment of Cancellation Price to Scheme Shareholders

Upon the Scheme becoming effective, payment of the Cancellation Price for the Scheme Shares will be made to the Scheme Shareholders whose names appear on the register of members of the Company as at the Record Date. Assuming that the Scheme becomes effective on Thursday, 24

October 2019 (Cayman Islands time), cheques for payment of the Cancellation Price under the Scheme will be paid for by Brightex (in the event the AACL Payment does not occur) or AACL (in the event the AACL Payment occurs) as soon as possible but in any event within 7 business days (as defined in the Takeovers Code) following the Scheme having become effective and accordingly, the cheques are expected to be despatched on or before Monday, 4 November 2019.

In the absence of any specific instructions to the contrary received in writing by the Share Registrar, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, cheques will be sent by ordinary post in postage pre-paid envelopes addressed to the persons entitled thereto at their respective registered addresses or, in the case of joint holders, to the registered address of that joint holder whose name stands first in the register of members of the Company in respect of the joint holding. All such cheques will be sent at the risk of the person(s) entitled thereto and none of the Joint Offerors, the Company, Somerley, Elstone will be responsible for any loss or delay in dispatch.

On or after the day being six calendar months after the posting of such cheques, Brightex (in the event the AACL Payment does not occur) or AACL (in the event the AACL Payment occurs) shall have the right to cancel or countermand payment of any such cheques which has not been cashed or has been returned uncashed, and shall place all monies represented thereby in a deposit account in the name of Brightex or AACL (as the case may be) with a licensed bank in Hong Kong selected by Brightex or AACL (as the case may be).

Brightex or AACL (as the case may be) shall hold such monies until the expiry of six years from the Effective Date and shall, prior to such date, make payments therefrom of the sums to persons who satisfy Brightex or AACL (as the case may be) that they are respectively entitled thereto. On the expiry of six years from the Effective Date, Brightex or AACL (as the case may be) shall be released from any further obligation to make any payments under the Scheme.

Assuming that the Scheme becomes effective, the register of members of the Company will be updated accordingly to reflect the cancellation of all the Scheme Shares and all existing certificates representing the Scheme Shares will cease to have effect as documents or evidence of title as from the Effective Date, which is expected to be on or about Thursday, 24 October 2019 (Cayman Islands time).

Settlement of the Cancellation Price to which the Scheme Shareholders are entitled under the Scheme will be implemented in full in accordance with the terms of the Scheme, without regard to any lien, right of set-off, counterclaim or other analogous right to which the Joint Offerors may otherwise be, or claim to be, entitled against any such Scheme Shareholder.

19. TAXATION AND INDEPENDENT ADVICE

Hong Kong stamp duty and tax consequences

As the Scheme and the Proposal do not involve the sale and purchase of Hong Kong stock, no Hong Kong stamp duty will be payable pursuant to the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong) on the cancellation of the Scheme Shares upon the Scheme becoming effective.

Holders of Scheme Shares, whether in Hong Kong or in other jurisdictions, are recommended to consult their own professional advisers if they are in any doubt as to the taxation implications of accepting the Proposal and, in particular, whether the receipt of the Cancellation Price would make such Scheme Shareholder liable to taxation in Hong Kong or in other jurisdictions.

It is emphasized that none of the Joint Offerors, the Joint Offeror Concert Parties, the Company, Somerley, Elstone and the Share Registrar and their agents or any of their respective directors, officers, associates or affiliates or any other person involved in the Scheme and the Proposal accepts responsibility or has any liability for any taxation effects on, or liabilities of, any persons as a result of their acceptance or rejection, or implementation, of the Proposal and the Scheme. All holders of Scheme Shares and/or Beneficial Owners shall be solely responsible for their liabilities (including tax liabilities) in relation to the Proposal, and are recommended to consult their professional advisers if in any doubt as to the taxation implications of the Proposal.

20. COURT MEETING AND EGM

In accordance with the directions of the Grand Court, the Court Meeting will be held for the purpose of considering and, if thought fit, passing a resolution to approve the Scheme (with or without modifications).

Holders of Scheme Shares (other than the Ascendent Employee being one of the Joint Offeror Concert Parties who holds Scheme Shares) whose names appear on the register of members of the Company as at the Meeting Record Date shall be entitled to attend and vote, in person or by proxy, at the Court Meeting for the purpose of the requirements of Cayman Islands law, provided that only votes of Independent Shareholders will be counted for the purpose of determining whether the requirements set out in the section headed “7. *Additional requirements as imposed by Rule 2.10 of the Takeovers Code*” in this Explanatory Memorandum are satisfied in accordance with the Takeovers Code. The Scheme will be subject to the approval by the holders of Scheme Shares at the Court Meeting in the manner referred to in the sub-section headed “Court Meeting” below.

The EGM will be held immediately following the adjournment or conclusion of the Court Meeting for the purpose of considering and, if thought fit, passing, among other things, the special resolution by the Shareholders to approve and give effect to (i) the reduction of the issued share capital of the Company by cancelling and extinguishing the Scheme Shares, (ii) the increase of the issued share capital of the Company to the amount prior to the cancellation of the Scheme Shares by issuing to either Brightex (in the event the AACL Payment does not occur) or AACL (in the event the AACL Payment occurs) only such number of new Shares as is equal to the number of Scheme Shares cancelled and (iii) the application of the credit arising in the Company’s books of accounts as a result of such issued share capital reduction in paying up in full at par value the new Shares issued to Brightex or AACL only (as the case may be), credited as fully paid.

Court Meeting

The Scheme is conditional upon, among other things, approval of the Scheme (by way of poll) by a majority in number representing 75% in value of the holders of the Scheme Shares (or class of such holders as directed by the Grand Court) present and voting either in person or by proxy at the Court Meeting, provided that:

- (a) the Scheme is approved (by way of poll) by the Independent Shareholders holding at least 75% of the votes attaching to the Scheme Shares held by the Independent Shareholders that are cast either in person or by proxy at the Court Meeting; and
- (b) the number of votes cast (by way of poll) by the Independent Shareholders present and voting either in person or by proxy at the Court Meeting against the resolution to approve the Scheme at the Court Meeting is not more than 10% of the votes attaching to all Scheme Shares held by all the Independent Shareholders.

Holders of Scheme Shares whose names appear in the register of members of the Company as at the Meeting Record Date shall be entitled to attend and vote, in person or by proxy, at the Court Meeting for the purposes of Cayman Islands law, provided that, for the purpose of satisfying the

voting requirements described in (a) and (b) above (which are contained in and imposed by the Takeovers Code), only the votes in respect of the Scheme Shares of Independent Shareholders present and voting either in person or by proxy, will be counted. As such, the Ascendent Employee, being a Joint Offeror Concert Party, who holds Scheme Shares will not be entitled to vote on the Scheme at the Court Meeting.

In accordance with the Companies Law, the “75% in value” requirement, as described above, will be met if the total value of the Scheme Shares being voted in favour of the Scheme is at least 75% of the total value of the Scheme Shares voted at the Court Meeting. In accordance with the Companies Law, the “majority in number” requirement, as described above, will be met if the number of holders of Scheme Shares voting in favour of the Scheme exceeds the number of holders of Scheme Shares voting against the Scheme at the Court Meeting. For the purpose of calculating the “majority in number” requirement, the number of holders of Scheme Shares, present and voting in person or by proxy, will be counted in the manner described below.

In accordance with the direction from the Grand Court, HKSCC Nominees Limited shall be permitted to vote both for and against the Scheme in accordance with instructions received by it from the CCASS Participants. For the purpose of calculating the “majority in number”, HKSCC Nominees Limited shall be treated as a multi-headed Shareholder of the Company. In this regard, HKSCC Nominees Limited shall be entitled to vote both for and against the Scheme in accordance with instructions received by it from the CCASS Participants. However, for the purpose of calculating the “majority in number”, each such CCASS Participant who instructs HKSCC Nominees Limited to vote in favour of the Scheme shall be counted for the “majority in number” as a single Shareholder voting in favour of the Scheme, and, if applicable, each such CCASS Participant who instructs HKSCC Nominees Limited to vote against the Scheme shall be counted for the “majority in number” as a single Shareholder voting against the Scheme. HKSCC Nominees Limited itself, as opposed to instructing CCASS Participants, shall not be counted as a Shareholder for the purpose of the calculation of the “majority in number”.

Notice of the Court Meeting is set out in Appendix V. to this Scheme Document. The Court Meeting will be held at 10:00 a.m. (Hong Kong time) on Monday, 23 September 2019 at Regus Hong Kong Central Plaza, 35th Floor, Central Plaza, 18 Harbour Road, Wan Chai, Hong Kong.

EGM

All Shareholders whose names appear in the register of members of the Company as at the Meeting Record Date shall be entitled to attend and vote, in person or by proxy, at the EGM with respect to the special resolution by the Shareholders to approve and give effect to:

- (i) the reduction of the issued share capital of the Company by the cancellation of the Scheme Shares;
- (ii) the increase of the issued share capital of the Company to the amount prior to the cancellation of the Scheme Shares by issuing to either Brightex (in the event the AACL Payment does not occur) or AACL (in the event the AACL Payment occurs) only such number of new Shares as is equal to the number of Scheme Shares cancelled; and

- (iii) the application of the credit arising in the Company's books of accounts as a result of such issued share capital reduction in paying up in full at par value the new Shares issued to Brightex or AACL only (as the case may be), credited as fully paid.

The special resolution described above will be passed if not less than three-fourths of the votes cast by the Shareholders, present and voting in person or by proxy or by duly authorized representative at the EGM, are in favour of the special resolution.

At the EGM, a poll will be taken and each Shareholder present and voting, either in person or by proxy, will be entitled to vote all of his/her/its Shares in favour of (or against) the special resolution. Alternatively, such Shareholder may vote some of his/her/its Shares in favour of the special resolution and any or all of the balance of their Shares against the special resolution (and vice versa).

The Joint Offerors and the Joint Offeror Concert Parties have indicated that if the Scheme is approved at the Court Meeting, those Shares held by them will be voted in favour of the special resolution to be proposed at the EGM.

Notice of EGM is set out in Appendix VI. to this Scheme Document. The EGM will be held at 10:30 a.m. (Hong Kong time) (or immediately after the Court Meeting convened on the same day and place shall have been concluded or adjourned) on Monday, 23 September 2019 at Regus Hong Kong Central Plaza, 35th Floor, Central Plaza, 18 Harbour Road, Wan Chai, Hong Kong.

Assuming that the Conditions are fulfilled (or, as applicable, waived in whole or in part), it is expected that the Scheme will become effective on or about Thursday, 24 October 2019 (Cayman Islands time). Further announcements will be made to give details of (i) the results of the Court Meeting and the EGM and, if all the resolutions are passed at those meetings, (ii) the result of the hearing of the petitions for the sanction of the Scheme and the confirmation of the capital reduction by the Grand Court, (iii) the Record Date, (iv) the Effective Date, and (v) the date of withdrawal of the listing of the Shares on the Stock Exchange.

21. BENEFICIAL OWNERS

Beneficial Owners are urged to have their names entered in the register of members of the Company as soon as possible for, among other things, the following reasons:

- (a) to enable the Beneficial Owners to become registered holders of Scheme Shares so that they can attend the Court Meeting in the capacity as members of the Company or to be represented by proxies to be appointed by them and to be included for the purpose of calculating the majority in number of Shareholders as required under Section 86 of the Companies Law in their capacity as members of the Company;
- (b) provided that the Beneficial Owners have become registered holders of Scheme Shares, to enable the Company to properly classify members of the Company for the purposes of the headcount test under Section 86 of the Companies Law; and

- (c) to enable the Company and Brightex (in the event the AACL Payment does not occur) or AACL (in the event the AACL Payment occurs) to make arrangements to effect payments by way of the delivery of cheques to the most appropriate person when the Scheme becomes effective.

No person shall be recognised by the Company as holding any Shares upon any trust. In the case of any Beneficial Owner whose Shares are held upon trust by, and registered in the name of, a Registered Owner (other than HKSCC Nominees Limited), such Beneficial Owner should contact the Registered Owner and provide the Registered Owner with instructions or make arrangements with the Registered Owner in relation to the manner in which the Shares of the Beneficial Owner should be voted at the Court Meeting and/or the EGM. Such instructions and/or arrangements should be given or made in advance of the deadline in respect of the Court Meeting and the EGM set by the Registered Owner in order to provide the Registered Owner with sufficient time to accurately complete his, her or its proxy and to submit it by the latest time for the lodgment of forms of proxy in respect of the Court Meeting and the EGM. To the extent that any Registered Owner requires instructions from or arrangements to be made with any Beneficial Owner at a particular date or time in advance of the latest time for the lodgment of forms of proxy in respect of the Court Meeting and the EGM, then any such Beneficial Owner should comply with the requirements of the Registered Owner.

Any Beneficial Owner whose Shares are deposited in CCASS and registered under the name of HKSCC Nominees Limited must, unless such Beneficial Owner is a person admitted to participate in CCASS as an Investor Participant, contact their broker, custodian, nominee or other relevant person who is, or has in turn deposited such Shares with, another CCASS Participant regarding voting instructions to be given to such persons if they wish to vote at the Court Meeting and/or EGM. Beneficial Owners should contact their broker, custodian, nominee or other relevant person in advance of the deadline in respect of the Court Meeting and the EGM set by them, in order to provide such broker, custodian, nominee or other relevant person with sufficient time to provide HKSCC Nominees Limited with instructions or make arrangements with HKSCC Nominees Limited in relation to the manner in which the Shares of the Beneficial Owner should be voted at the Court Meeting and/or the EGM. The procedure for voting in respect of the Scheme by HKSCC Nominees Limited with respect to the Shares registered under the name of HKSCC Nominees Limited shall be in accordance with the “General Rules of CCASS” and the “CCASS Operational Procedures” in effect from time to time.

22. SUMMARY OF ACTIONS TO BE TAKEN

Shareholders

A **pink** form of proxy for use at the Court Meeting and a **white** form of proxy for use at the EGM are enclosed with copies of this Scheme Document sent to Registered Owners. Subsequent purchasers of Scheme Shares will need to obtain the proxy forms from the transferor if he or she wishes to attend or vote at the Court Meeting and/or the EGM.

Whether or not you are able to attend the Court Meeting and/or the EGM, the holder of Scheme Shares are strongly urged to complete and sign the enclosed **pink** form of proxy in respect of the Court Meeting, and Shareholders are strongly urged to complete and sign the enclosed **white** form

of proxy in respect of the EGM, in accordance with the instructions printed thereon, and to lodge them at the office of the Share Registrar, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.

In order to be valid, the **pink** form of proxy for use at the Court Meeting should be lodged not later than 10:00 a.m. (Hong Kong time) on Saturday, 21 September 2019 or be handed to the chairman of the Court Meeting at the Court Meeting (who shall have absolute discretion as to whether or not to accept it), and the **white** form of proxy for use at the EGM should be lodged not later than 10:30 a.m. (Hong Kong time) on Saturday, 21 September 2019. The completion and return of a form of proxy for the Court Meeting or the EGM will not preclude you from attending and voting in person at the relevant meeting. In such event, the returned form of proxy will be deemed to have been revoked.

If you do not appoint a proxy and you do not attend and vote at the Court Meeting and/or EGM, you will still be bound by the outcome of such Court Meeting and/or EGM if, among other things, the resolutions are passed by the requisite majorities at the Court Meeting and EGM. You are therefore strongly urged to attend and vote at the Court Meeting and the EGM in person or by proxy.

For the purpose of determining the entitlements of holders of Scheme Shares to attend and vote at the Court Meeting and Shareholders to attend and vote at the EGM, the register of members of the Company will be closed from Wednesday, 18 September 2019 to Monday, 23 September 2019 (both days inclusive) and during such period, no transfer of Shares will be effected. In order to qualify to vote at the Court Meeting and the EGM, all transfers accompanied by the relevant share certificates must be lodged with the Share Registrar at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong before 4:30 p.m. (Hong Kong time) on Tuesday, 17 September 2019.

An announcement will be made by the Company and the Joint Offerors in relation to the results of the Court Meeting and the EGM no later than 7:00 p.m. on Monday, 23 September 2019. If all the resolutions are passed at those meetings, further announcement (s) will be made of the results of the Grand Court hearing of the petitions to sanction the Scheme and to confirm the capital reduction and, if the Scheme is sanctioned, the Record Date, the Effective Date and the date of withdrawal of the listing of the Shares on the Stock Exchange.

Actions to be taken by holders through Trust or CCASS

The Company will not recognise any person as holding any Shares upon any trust. If you are a Beneficial Owner whose Shares are held upon trust by, and registered in the name of, a Registered Owner (other than HKSCC Nominees Limited), you should contact the Registered Owner and provide the Registered Owner with instructions or make arrangements with the Registered Owner in relation to the manner in which your Shares should be voted at the Court Meeting and/or the EGM. Such instructions and/or arrangements should be given or made in advance of the deadline in respect of the Court Meeting and the EGM set by the Registered Owner in order to provide the Registered Owner with sufficient time to accurately complete his, her or its proxy and to submit it by the latest time for lodgment of forms of proxy in respect of the Court Meeting and the EGM. To the extent that any Registered Owner requires instructions from or arrangements to be made with any Beneficial Owner

at a particular date or time in advance of the latest time for the lodgment of forms of proxy in respect of the Court Meeting and the EGM, any such Beneficial Owner should comply with the requirements of the Registered Owner.

If you are a Beneficial Owner whose Shares are deposited in CCASS and registered under the name of HKSCC Nominees Limited, you must, unless you are an Investor Participant, contact your broker, custodian, nominee, or other relevant person who is, or has, in turn, deposited such Shares with, another CCASS Participant regarding voting instructions to be given to such persons if you wish to vote at the Court Meeting and/or at the EGM. You should contact your broker, custodian, nominee or other relevant person in advance of the deadline in respect of the Court Meeting and the EGM set by them, in order to provide such broker, custodian, nominee or other relevant person with sufficient time to provide HKSCC Nominees Limited with instructions or make arrangements with HKSCC Nominees Limited in relation to the manner in which the Shares of the Beneficial Owner should be voted at the Court Meeting and/or the EGM. The procedure for voting in respect of the Scheme by HKSCC Nominees Limited with respect to the Shares registered under the name of HKSCC Nominees Limited shall be in accordance with the “General Rules of CCASS” and the “CCASS Operational Procedures” in effect from time to time.

HKSCC Nominees Limited may also vote for and against the Scheme in accordance with instructions received from CCASS Participants. However, for the purpose of calculating the “majority in number”, each such CCASS Participant who instructs HKSCC Nominees Limited to vote in favour of the Scheme shall be counted for the “majority in number” as a single Shareholder voting in favour of the Scheme, and, if applicable, each such CCASS Participant who instructs HKSCC Nominees Limited to vote against the Scheme shall be counted for the “majority in number” as a single Shareholder voting against the Scheme. HKSCC Nominees Limited itself, as opposed to instructing CCASS Participants, shall not be counted as a Shareholder for the purpose of the calculation of the “majority in number”.

If you are a Beneficial Owner whose Shares are deposited in CCASS, you may also elect to become a Shareholder of record, and thereby have the right to attend and vote at the Court Meeting (if you are a holder of the Scheme Shares) and the EGM (as a Shareholder). You can become a Shareholder of record by withdrawing all or any of your Shares from CCASS and becoming a Registered Owner of such Shares. For withdrawal of Shares from CCASS and registration thereof, you will be required to pay to CCASS a withdrawal fee per board lot withdrawn, a registration fee for each share certificate issued, stamp duty on each transfer instrument and, if your Shares are held through a financial intermediary, any other relevant fees charged by your financial intermediary. You should contact your broker, custodian, nominee or other relevant person in advance of the latest time for lodging transfers of the Shares into your name so as to qualify to attend and vote at the Court Meeting and the EGM, in order to provide such broker, custodian, nominee or other relevant person with sufficient time to withdraw the Shares from CCASS and register them in your name.

Petition Hearing in the Grand Court

Prior to the dispatch of this Scheme Document, the Company obtained directions from the Grand Court for the convening of the Court Meeting to consider the Scheme and other procedural matters regarding the Scheme.

In accordance with Sections 14, 15 and 86 of the Companies Law, if the resolutions are approved at the Court Meeting and the EGM, the Company will seek a further hearing before the Grand Court to request the sanction of the Scheme and file a petition with the Grand Court seeking confirmation of the capital reduction. The Company and the Joint Offerors cannot complete the Scheme and the Proposal without obtaining these approvals. The Company expects that these hearings will take place in or around October 2019. At the hearing of the Scheme petition the Grand Court will determine whether to exercise its discretion to sanction the Scheme. In doing so the Grand Court will consider, among other things, whether all relevant notice periods were complied with and whether the Scheme was such that a reasonable member would have approved it. At the hearing of the petition, the Grand Court may impose such conditions as it deems appropriate in relation to the Scheme.

If the Grand Court sanctions the Scheme and if all of the other conditions to the Scheme are satisfied or (to the extent allowed by law) waived, the Company intends to file the court order sanctioning the Scheme with the Registrar of Companies in the Cayman Islands on Thursday, 24 October 2019 (Cayman Islands time) or as otherwise directed by the Grand Court, at which time the Scheme will become effective.

SHAREHOLDERS (INCLUDING ANY BENEFICIAL OWNERS OF SUCH SHARES THAT GAVE VOTING INSTRUCTIONS TO A CUSTODIAN OR CLEARING HOUSE THAT SUBSEQUENTLY VOTED AT THE COURT MEETING) SHOULD NOTE THAT THEY ARE ENTITLED TO APPEAR AT THE GRAND COURT HEARING EXPECTED TO BE HELD ON TUESDAY, 22 OCTOBER 2019 AT WHICH THE COMPANY WILL SEEK, AMONG OTHER THINGS, THE SANCTION OF THE SCHEME.

23. RECOMMENDATION

Your attention is drawn to the following:

- (i) the letter from the Board set out in Part IV. of this Scheme Document;
- (ii) the letter from the Independent Board Committee set out in Part V. of this Scheme Document;
and
- (iii) the letter from the Independent Financial Adviser set out in Part VI. of this Scheme Document.

24. FURTHER INFORMATION

Further information is set out in the appendices to, and elsewhere in, this Scheme Document, all of which form part of this Explanatory Memorandum.

Shareholders should rely only on the information contained in this Scheme Document. None of the Company, the Joint Offerors, Somerley, Elstone and the Share Registrar or any of their respective affiliates has authorised anyone to provide you with information that is different from what is contained in this Scheme Document.

25. LANGUAGE

In case of any inconsistency, the English language text of this Scheme Document and the accompanying forms of proxy shall prevail over the Chinese language text.

1. FINANCIAL SUMMARY

Set out below is a summary of the consolidated financial information of the Group for each of the three years ended 31 December 2016, 31 December 2017 and 31 December 2018 and each of the six months ended 30 June 2018 and 30 June 2019, the figures of which are extracted from the consolidated financial statements in the annual report of the Company for the year ended 31 December 2016, 31 December 2017 and 31 December 2018 and the unaudited consolidated financial statements in the interim report of the Company for the six months ended 30 June 2018 and 30 June 2019 respectively.

The auditors' reports issued by the auditors of the Company, Deloitte Touche Tohmatsu, in respect of the audited consolidated financial statements of the Group for each of the three years ended 31 December 2016, 31 December 2017 and 31 December 2018 did not contain any modified opinion, emphasis of matter or material uncertainty related to going concern.

Summary of Consolidated Statement of Profit or Loss and Other Comprehensive Income

	(Unaudited) For the six months ended 30 June 2019 RMB'000	(Unaudited) For the six months ended 30 June 2018 RMB'000	(Audited) For the year ended 31 December		
			2018 RMB'000	2017 RMB'000	2016 RMB'000
Turnover – continuing operations	968,986	809,506	1,891,094	1,223,022	1,062,132
Profit (Loss) before taxation:					
– Continuing operations	(74,078)	(66,127)	52,864	(174,852)	(355,513)
– Discontinued operations	–	–	–	(15,295)	(67,329)
	<u>(74,078)</u>	<u>(66,127)</u>	<u>52,864</u>	<u>(190,147)</u>	<u>(422,842)</u>
Taxation:					
– Continuing operations	(21,718)	(16,059)	(45,576)	(17,403)	8,701
– Discontinued operations	–	–	–	–	(756)
	<u>(21,718)</u>	<u>(16,059)</u>	<u>(45,576)</u>	<u>(17,403)</u>	<u>7,945</u>
Profit (Loss) for the year/period:					
– Continuing operations	(95,796)	(82,186)	7,288	(192,255)	(346,812)
– Discontinued operations	–	–	–	(15,295)	(68,085)
	<u>(95,796)</u>	<u>(82,186)</u>	<u>7,288</u>	<u>(207,550)</u>	<u>(414,897)</u>
Loss for the year/period attributable to owners of the Company:					
– Continuing operations	(107,603)	(100,521)	(18,480)	(201,550)	(390,757)
– Discontinued operations	–	–	–	(6,634)	–
	<u>(107,603)</u>	<u>(100,521)</u>	<u>(18,480)</u>	<u>(208,184)</u>	<u>(390,757)</u>

APPENDIX I.
FINANCIAL INFORMATION OF THE GROUP

	(Unaudited) For the six months ended 30 June 2019 <i>RMB'000</i>	(Unaudited) For the six months ended 30 June 2018 <i>RMB'000</i>	(Audited) For the year ended 31 December		
			2018 <i>RMB'000</i>	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Profit (Loss) for the year/period attributable to non-controlling interests:					
– Continuing operations	11,807	18,335	25,768	9,295	(24,140)
– Discontinued operations	–	–	–	(8,661)	–
	<u>11,807</u>	<u>18,335</u>	<u>25,768</u>	<u>634</u>	<u>(24,140)</u>
Total comprehensive (expense) income attributable to:					
– owners of the Company	(107,876)	(101,635)	(14,328)	(207,220)	(387,464)
– non-controlling interests	11,807	18,335	25,768	634	(24,140)
	<u>(96,069)</u>	<u>(83,300)</u>	<u>11,440</u>	<u>(206,586)</u>	<u>(411,604)</u>
Total dividends recognized as distribution	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Loss per share					
From continuing and discontinued operations					
Basic	<u>(10.48)</u>	<u>(9.80)</u>	<u>(1.80)</u>	<u>(20.29)</u>	<u>(38.08)</u>
Diluted	<u>(10.48)</u>	<u>(9.80)</u>	<u>(1.80)</u>	<u>(21.45)</u>	<u>(38.08)</u>
From continuing operations					
Basic	<u>(10.48)</u>	<u>(9.80)</u>	<u>(1.80)</u>	<u>(19.64)</u>	<u>(33.83)</u>
Diluted	<u>(10.48)</u>	<u>(9.80)</u>	<u>(1.80)</u>	<u>(20.94)</u>	<u>(33.83)</u>
Total dividends recognized as distribution per share	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

2. CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP

The Company is required to set out or refer to in this Scheme Document the consolidated statement of financial position, consolidated statement of cash flows and any other primary statement as shown in (i) the audited consolidated financial statements of the Group for the year ended 31 December 2018 (the “**2018 Financial Statements**”) and (ii) the unaudited consolidated interim financial statements of the Group for the six months ended 30 June 2019 (the “**2019 Interim Financial Statements**”), together with the notes to the published financial statements which are of major relevance to the appreciation of the above financial information.

The 2018 Financial Statements are set out on pages 46 to 153 of the Annual Report 2018 of the Company, which was published on 24 April 2019. The Annual Report 2018 is posted on the Company’s website at <http://www.cag.com.hk> and the website of the Stock Exchange at <http://www.hkexnews.hk>. Please also see below a direct link to the Annual Report 2018:

- <http://www3.hkexnews.hk/listedco/listconews/SEHK/2019/0424/LTN20190424446.pdf>

The 2019 Interim Financial Statements are set out on pages 12 to 40 of the Interim Report 2019 of the Company, which was published on 28 August 2019. The Interim Report 2019 is posted on the Company’s website at <http://www.cag.com.hk> and the website of the Stock Exchange at www.hkexnews.hk. Please also see below a direct link to the Interim Report 2019:

- <https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0828/ltn20190828316.pdf>

The 2018 Financial Statements and the 2019 Interim Financial Statements (but not any other part of the Annual Report 2018 and the Interim Report 2019 in which they appear) are incorporated by reference into this Scheme Document and form part of this Scheme Document.

3. STATEMENT OF INDEBTEDNESS

As at the close of business on 30 June 2019, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this Scheme Document, the Group had total outstanding indebtedness as summarised below:

	<i>RMB'000</i>
Bank borrowings	
– Secured ^(Note i) and guaranteed ^(Note ii)	185,000
– Secured ^(Note i) and unguaranteed	40,593
– Unsecured and guaranteed ^(Note ii)	138,000
– Unsecured and unguaranteed	<u>85,000</u>
	<u>448,593</u>
Long term payable, unsecured and guaranteed ^(Note ii)	87,286
Long term payables, secured ^(Note i) and guaranteed ^(Note ii)	500,000
Guaranteed notes, unsecured and guaranteed ^(Note ii)	69,534
Corporate bonds, secured ^(Note i) and guaranteed ^(Note ii)	208,854
Convertible bonds, unsecured and unguaranteed	<u>731,245</u>
	<u><u>2,045,512</u></u>

Notes:

- (i) All securities including issued shares of a subsidiary, property, plant and equipment, land use rights, bills receivable and inventories pledged for the indebtedness are owned by the Group.
- (ii) Except for corporate bonds with a total carrying amount of RMB208,854,000 and secured bank borrowing with a total carrying amount of RMB100,000,000 which are guaranteed by an independent third party, all other guaranteed indebtedness of the Group are guaranteed by the Company, the chairman of the Company and/or subsidiaries of the Company.

Lease obligations

As at 30 June 2019, excluding contingent rental arrangements, the Group, as a lessee, has outstanding unpaid contractual lease payments for the remainder of the relevant lease terms amounting to RMB36,238,000 in aggregate, which are secured by rental deposits and unguaranteed.

Save as aforesaid and apart from intra-group liabilities and normal trade and bills payables in the ordinary course of the business, as at the close of business on 30 June 2019, the Group did not have other debt securities issued and outstanding, authorised or otherwise created but unissued, outstanding mortgages, charges, debentures or other loan capital, bank overdrafts or loans, other similar indebtedness, hire purchase commitments, liabilities under acceptances or acceptance credits, guarantees or material contingent liabilities.

4. PROPERTY INTERESTS AND ADJUSTED NAV OF THE GROUP

The valuation of the Group's property interests as at 30 June 2019 was conducted by D & P China (HK) Limited, the independent professional valuer appointed by the Company. The total market value of the property interests in existing state attributable to the Shareholders as at 30 June 2019 was approximately RMB995,920,000, as set out below:

	Market Value of the property interest in existing state attributable to the Shareholders <i>RMB'000</i>	Proportion of total
Buildings	565,187	56.7%
Prepaid lease payments	337,233	33.9%
Construction in progress	93,500	9.4%
Total property interests	995,920	100%

Further details of the aforementioned property interests and their corresponding valuation report prepared by D & P China (HK) Limited are set out in Appendix II. to this Scheme Document.

Based on the unaudited consolidated financial statements of the Company as at 30 June 2019, the unaudited NAV of the Group as at 30 June 2019 were approximately RMB1,058,216,000 (or approximately RMB1.0311 per Share).

The adjusted shareholders' equity on a per Share basis was approximately RMB1.1275 as at 30 June 2019, which was based on the unaudited NAV of the Group adjusted by the underlying market value of the Group's properties (comprising buildings, prepaid lease payments and construction in progress) as at 30 June 2019.

Some of the property interests of the Group were stated at cost basis in accordance with Hong Kong Financial Reporting Standards. Set out below is the Adjusted NAV of the Group, based on the unaudited consolidated financial statements of the Company as at 30 June 2019 and the adjustments, which include the revaluation surplus arising from property valuation, net of estimated deferred tax:

	<i>RMB'000</i>
Unaudited NAV of the Group as at 30 June 2019	1,058,216
Adjustments:	
– Revaluation surplus arising from the valuation of property interests attributable to the Shareholders as at 30 June 2019 ^(Note 1)	140,252
– Deferred tax on attributable revaluation surplus ^(Note 2)	(41,354)
Adjusted NAV of the Group	1,157,114
Adjusted NAV of the Group per Share ^(Note 3)	1.1275

Notes:

1. Represented the revaluation surplus arising from the excess of the market value of the property interests held by the Group in existing state attributable to the Shareholders of approximately RMB140,252,000 as at 30 June 2019, as appraised by D & P China (HK) Limited, over their corresponding book values attributable to the Shareholders of approximately RMB1,058,216,000 as at 30 June 2019, after adjusting for relevant interests not attributable to the Group.
2. Represents deferred tax (the “**Deferred Tax**”) on temporary differences between the market values of the property interests and the corresponding tax base used in computation of taxable profit. Deferred tax is calculated at tax rates of 15% or 25% for PRC corporate income tax (subject to whether the relevant group company is entitled to preferential tax treatment), while land appreciation tax is estimated at progressive rates ranging from 30% to 60% of appreciation value with certain allowable deductions according to the relevant PRC tax laws and regulations.
3. Based on 1,026,263,729 Shares in issue as at the Latest Practicable Date.

5. MATERIAL CHANGE

The Directors confirm that there was no material change in the financial or trading position or outlook of the Group since 31 December 2018, being the date to which the latest published audited consolidated financial statements of the Group were made up, up to and including the Latest Practicable Date.

The following is the text of a letter, summary of valuations and valuation report prepared for the purpose of incorporation in this Scheme Document received from D&P China (HK) Limited, an independent property valuer, in connection with its opinion of value of the property interests of the Group as at 30 June 2019.

DUFF & PHELPS

31 August 2019

China Automation Group Limited
Suite 3205B-3206, 32nd Floor, Office Tower
Convention Plaza, 1 Harbour Road
Wanchai, Hong Kong

Dear Sirs,

In accordance with the instruction of China Automation Group Limited (the “**Company**” or “**CAG**”), together with its subsidiaries (the “**Group**”) to provide our opinion on the market values of various properties located in the People’s Republic of China (the “**PRC**”) (hereafter referred to as the “**Properties**” or the “**property interests**”). We confirm that we have carried out inspection of the Properties, made relevant enquiries and obtained such further information as we considered necessary for providing our opinion on the market values of such property interests as of 30 June 2019 (referred to as the “**valuation date**”).

This letter which forms part of our valuation report explains the basis and methodologies of valuation, and clarifies our assumptions made, title investigation of property interests and the limiting conditions.

The receipt or possession of this valuation report by any third party shall not create any express or implied third-party beneficiary rights.

BASIS OF VALUATION

Our valuation is our opinion of the Market Value which is defined in accordance with the HKIS Valuation Standards of the Hong Kong Institute of Surveyors to mean “the estimated amount for which an asset or liability should exchange on the Valuation Date between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion”.

Market Value is understood as the value of an asset and liability estimated without regard to costs of sale or purchase (or transaction) and without offset for any associated taxes or potential taxes.

This estimate specifically excludes an estimated price inflated or deflated by special considerations or concessions granted by anyone associated with the sale, or any element of special value.

VALUATION METHODOLOGY

For land parcels and standardized properties with sufficient market data, market approach is considered as the appropriate valuation method. In respect of Property Nos. 3, 6, 7, 9-11 and 13, market approach was adopted. By market approach, comparison is based on prices realized on actual sales or market price information of comparable properties is made. Comparable properties of similar size, character and location are analyzed and carefully weighed against all the respective advantages and disadvantages of the property interest in order to arrive at a Market Value.

For tailor-made properties and construction-in-progress works, cost approach is considered as the appropriate valuation method, In respect of Property Nos. 2, 4, 5, 8 and 12, cost approach was adopted. It begins with the determination of land value, which is valued by the market method. Once land value has been determined, reproduction or replacement costs of the improvements are estimated as if the improvements were new. The estimate is then further adjusted for all elements of accrued depreciation including physical depreciation, functional and/or external obsolescence.

For investment property, income approach is considered as the appropriate valuation method. In respect of Property 1, income approach was adopted. By income approach, value is developed by capitalizing the rental income derived from the existing tenancies with due provision for the reversionary income potential of the Property. Full market rental values have been assumed for the vacant and owner-occupied spaces.

TITLE INVESTIGATION

We have been provided with copies of documents in relation to the title of the property interests located in the PRC. However, due to the current registration system of the PRC, no investigation has been made for the legal title or any liabilities attached to the Properties. We have also not scrutinized the original documents to verify ownership or to verify any amendments which may not appear on the copies handed to us.

We have relied to a considerable extent on the information provided by the Company and the PRC legal opinion provided by the PRC legal adviser, Tian Yuan Law Firm, on the PRC Law regarding the Properties located in the PRC.

All legal documents disclosed in this letter and valuation particulars are for reference only and no responsibility is assumed for any legal matters concerning the legal title to the property interests set out in this letter and valuation particulars.

POTENTIAL TAX LIABILITIES

As advised by the Group, the potential tax liabilities which will arise on direct disposal of the property interests held by the Group at the amounts valued by us mainly comprise the following:

- Value added tax (“VAT”) at 5%/10% on the transaction amount

- PRC corporate income tax at 15% or 25% on the difference between market values of the property interest and the corresponding tax base used in computation of taxable profit. The adopted rate is subject to whether the relevant group company is entitled to preferential tax treatment.
- Land appreciation tax at progressive rates from 30% to 60% on the appreciation in property value
- Stamp duty at 0.05% on the transaction amount
- Other surcharge at approximately 11% of VAT paid

The likelihood of the relevant tax liabilities being crystallized is remote as the Group has no plans for disposal of such Properties yet.

ASSUMPTIONS

Our valuations have been made on the assumption that the owner sells the property interests on the market in its existing state without the benefit of deferred terms contracts, leaseback, joint ventures, management agreements or any similar arrangement which would serve to affect the values of the property interests.

No allowance has been provided in our valuations for any charges, mortgages or amounts owing on the Properties valued nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, all the property interests are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

We have assumed that the owner(s) of the property interests have free and uninterrupted rights to use, lease or mortgage the property interests. We have also assumed that the property interests are freely disposable and transferable.

We have valued the property interests on the assumption that it is developed in accordance with the development proposals or building plans given to us. We have assumed that all consents, approvals and licences from relevant government authorities for the buildings and structures erected or to be erected thereon have been granted. Also, we have assumed that unless otherwise stated, all buildings and structures erected on the land parcels are held by the owner(s) or permitted to be occupied by the owner(s).

It is assumed that all applicable zoning, land use regulations and other restrictions have been complied with unless a non-conformity has been stated, defined and considered in the valuation particulars. Further, it is assumed that the utilization of the land and improvements is within the boundaries of the property interests described and that no encroachment or trespass exists unless noted in the valuation particulars.

Other special assumptions of the Properties, if any, have been stated in the footnotes of the valuation particulars.

LIMITING CONDITIONS

We have relied to a considerable extent on the information provided by the Group and have accepted advice given to us by the Group on such matters as statutory notices, easements, tenure, occupancy, site areas and floor areas and all other relevant matters. Dimensions and areas included in the valuation particulars are based on information contained in the documents provided to us and are only approximations.

Having examined all relevant documentation, we have had no reason to doubt the truth and accuracy of the information provided to us. We have assumed that no material factors have been omitted from the information to reach an informed view, and have no reason to suspect that any material information has been withheld.

We have not carried out detailed site measurements to verify the land areas or building areas in respect of the properties but have assumed that the areas provided to us are correct. All dimensions and areas are approximations only.

Our Mr. Calvin Chan, Mr. Robert Hu, Ms. Kathy Li, Ms. Valerie Li have inspected the Properties between 20 May 2019 and 23 May 2019. No structural survey has been made and we are therefore unable to report as to whether the Properties are or are not free of rot, infestation or any other structural defects. No tests were carried out on any of the services.

No site investigations have been carried out to determine the suitability of the ground conditions or the services for the sites.

No environmental impact study has been ordered or made. Full compliance with applicable national, provincial and local environmental regulations and laws is assumed unless otherwise stated, defined, and considered in the report. It is also assumed that all required licenses, consents, or other legislative, or administrative authority from any local, provincial, or national government or private entity or organization either have been or can be obtained or renewed for any use which the report covers.

REMARKS

In valuing the property interests, we have complied with all the requirements contained in Paragraph 34(2) and (3) of Schedule 3 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32, the Laws of Hong Kong), Chapter 5 and Practice Note 12 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and The HKIS Valuation Standards (2017 Edition) published by the Hong Kong Institute of Surveyors and Rule 11 of the Codes on Takeovers and Mergers and Share Buy-backs published by the Securities and Future Commission. We confirm that we are an independent qualified valuer, as referred to Rule 11 of The Codes on Takeovers and Mergers and Share Buy-Backs and Rule 5.08 of Listing Rules.

We hereby certify that we have neither present nor prospective interest in the Properties or the values reported. This valuation report is issued subject to our Assumptions and Limiting Conditions.

Unless otherwise stated, all monetary amount stated in this report is in Renminbi (RMB).

Yours faithfully,
For and on behalf of
D&P China (HK) Limited

Calvin K.C. Chan
CFA, MRICS, MHKIS, MCIREA, RPS (GP)
Director

Notes:

Mr. Calvin K. C. Chan, who is a Chartered Surveyor and Registered Professional Surveyor, has over 20 years’ experience in valuation of properties in Hong Kong and China. Mr. Chan has been admitted to the Hong Kong Institute of Surveyors’ approved List of Property Valuers to undertake valuation for incorporation or reference in Listing Particulars and Circulars and valuation in connection with that takeovers and mergers.

*Mr. Robert Hu, who is a Chinese Registered Real Estate Appraiser admitted to Ministry of Housing and Urban-Rural Development of the PRC (“**MOHURD**”), has over 20 years’ experience in valuation of properties in China.*

Ms. Kathy Li, who is a Chinese Registered Real Estate Appraiser admitted to MOHURD and Accredited Senior Appraiser admitted to the American Society of Appraisers, has over 15 years’ experience in valuation of properties in China.

Ms. Valerie Li, who is a Chinese Registered Real Estate Appraiser admitted to MOHURD, has over 15 years’ experience in valuation of properties in China.

SUMMARY OF VALUES

No.	Property	Market Value in existing state as of 30 June 2019 (RMB)	Interest Attributable to the Company	Market Value attributable to the Company as of 30 June 2019 (RMB) (approx.)
1.	An Industrial complex located at No. 7 Yudong Road, Shunyi District, Beijing City, the PRC 中國北京市順義區裕東路7號之廠房綜合體	68,000,000	100%	68,000,000
2.	An industrial complex located at No. 7 Anxiang Street, Shunyi District, Beijing City, the PRC 中國北京市順義區安祥街7號之廠房綜合體	123,800,000	100%	123,800,000
3.	Office Unit Nos. 1117 & 1119 on 11th Floor, Haitai Plaza, No. 229 North 4th Ring Zhong Road, Haidian District, Beijing City, the PRC 中國北京市海澱區北四環中路229號海泰大廈11樓1117及1119室	15,400,000	100%	15,400,000
4.	An industrial complex located at South of Xueyuan Road, West of Aishan Road, Litong District, Wuzhong City, Ningxia, the PRC 中國寧夏吳忠市利通區學院路南側，艾山路北側的廠房綜合體	326,800,000	100%	326,800,000
5.	Construction-in-progress (“CIP”) works erected on three land parcels located at Kaiyuan Avenue and Binhe Avenue, Jinji Industrial Park, Litong District, Wuzhong City, Ningxia, the PRC 中國寧夏吳忠市利通區金積工業園區開元大道及濱河大道之三塊土地及在建工程	208,100,000	100%	208,100,000
6.	Two connective land parcels with two industrial buildings erected thereon located at Qingtan Nan Road, Qingtongxia Town, Qingtongxia City, Ningxia, the PRC 中國寧夏青銅峽市青銅峽鎮青灘南路之兩塊土地及兩幢房屋	4,200,000	100%	4,200,000
	Sub-total:	746,300,000		746,300,000

APPENDIX II.
PROPERTY VALUATION REPORT

No.	Property	Market Value in existing state as of 30 June 2019 (RMB)	Interest Attributable to the Company	Market Value attributable to the Company as of 30 June 2019 (RMB) (approx.)
7.	An industrial parcel located at South of Caobu Village, Rushan City, Shandong Province, the PRC 中國山東乳山市草埠村南之工業土地	1,400,000	100%	1,400,000
8.	A construction-in-progress (“CIP”) works erected on an industrial land parcel located at West of Cishan Avenue, South of Shangde Road, East of Runde Road, Jinji Industrial Park, Litong District Wuzhong City, Ningxia, the PRC 中國寧夏青吳忠市利通區金積工業園區慈善大道西側尚德路南側潤德路東側之土地及在建工程	53,200,000	100%	53,200,000
9.	Five residential unit nos. 6C1, 7C2, 10C1, 5C1 & 8C2 of Block 1, Yiyuan Building, Chaoyangdong Street, Wuzhong City, Ningxia, the PRC 中國寧夏吳忠市朝陽東街儀苑大廈一號樓6C1, 7C2, 10C1, 5C1 及8C2號	1,850,000	100%	1,850,000
10.	Six residential unit nos. 202 & 302 of Unit 1 and no. 103 of Unit 2 of Block 33, nos. 602 of unit 1 and 604 of unit 2 of Block 30 and no. 601 of unit 1 of Block 29, AB zone, Tianyuitiancheng, Yingbin Road, Qipanjing Town, Etukeqi, Erdos City, Inner Mongolia, the PRC 中國內蒙古鄂爾多斯市鄂托克旗棋盤井鎮迎賓路西天譽天城AB區33號樓1單元202&302室及2單元103室，30號樓1單元602室及2單元604室，29號樓1單元601室	2,400,000	100%	2,400,000
Sub-total:		58,850,000		58,850,000

APPENDIX II.**PROPERTY VALUATION REPORT**

No.	Property	Market Value in existing state as of 30 June 2019 (RMB)	Interest Attributable to the Company	Market Value attributable to the Company as of 30 June 2019 (RMB) (approx.)
11.	Eight residential unit nos. 1801, 1901 & 2802 of unit 2 and no. 2801 of unit 3 of Block 11, nos. 1801, 1901 & 2001 of unit 2 of Block 15 and no. 2403 of unit 1 of Block 18 of Lanxigu Community, East of Lijingbei Street, Xingqing District, Yinchuan City, Ningxia, the PRC 中國寧夏銀川市興慶區麗景北街東側蘭溪谷小區11號樓2單元1801, 1901及2802室, 11號樓3單元2801室, 15號樓2單元1801, 1901及2001室及18號樓1單元2403室	6,570,000	100%	6,570,000
12.	A hospital located at No.1388, Gaoxin Road, Songling Town, Wujiang District, Suzhou City, Jiangsu Province, the PRC 中國江蘇省蘇州市吳江區松陵鎮高新路1388號之醫院	271,000,000	58.8%	159,300,000
13.	Five industrial land parcels located at Liushui Industrial Zone, east of Dongfeng Street, Fangshan District, Beijing City, the PRC 中國北京市房山區東風街道東流水工業區之五塊工業土地	48,800,000	51%	24,900,000
	Sub-total:	<u>326,370,000</u>		<u>190,770,000</u>
	Grand Total:	<u><u>1,131,520,000</u></u>		<u><u>995,920,000</u></u>

VALUATION PARTICULARS

No.	Property	Description and Tenure	Particulars of Occupancy	Market Value in existing state as at 30 June 2019
1.	An industrial complex located at No. 7 Yudong Road, Shunyi District, Beijing City, the PRC 中國北京市順義區裕東路7號之廠房綜合體	The Property comprises an industrial complex erected on a land parcel with a site area of 10,417.23 square metres. As provided by the Company, the total gross floor area of the Property is 12,967.74 square metres. The buildings were completed in between 1998 and 2001. The land use rights of the Property have been granted for terms expiring on 29 July 2048 for industrial use.	As advised by the Group, the Property was subject to various tenancy agreements at a monthly rent of about RMB566,000 with the latest term expiring on 30 April 2023 as of the valuation date.	RMB68,000,000 (100% interest attributable to the Company: RMB68,000,000)

Notes:

- Pursuant to a State-owned Land Use Rights Certificate (國有土地使用證), Jing Shun Gao Yong (2008 Chu) Zi No. 00064 issued by the People's Government of Shunyi District of Beijing City (北京市順義區人民政府) dated 28 August 2008, the land use rights of the Property with site area of 10,417.23 square metres was granted to 北京天竺興業軟件技術有限公司 for a term expiring on 29 July 2048 for industrial use. As per certificate, the Property is subject to a mortgage with a maximum loan amount of RMB10,000,000 with a loan period from 15 November 2018 to 15 November 2019.
- Pursuant to a Building Ownership Certificate (房屋所有權證), X Jing Fang Quan Zheng Shi She Wai Zi No 019069, issued by Construction Bureau of Beijing City (北京市建築委員會), the ownership of the buildings with gross floor area of approximately 12,967.74 square metres is held by 北京天竺興業軟件技術有限公司.
- According to an Asset Transfer Agreement entered between 北京舒馳美德建築制品有限公司 (the transferor) and 北京天竺興業軟件技術有限公司 (the transferee) dated 2 June 2008, the transferor agreed to transfer the land use rights and the building ownerships of the Property at a consideration of RMB41,000,000.
- 北京天竺興業軟件技術有限公司 is 100% indirectly wholly owned subsidiary of the Company.
- The Property is located in Zone B of Tianzhu airport Economic Development Zone, which was established in 1994. It is about 1 kilometer away from Beijing International Airport, and about 30-min driving distance from subject property to the CBD area of Beijing. It conforms with the neighboring environment, as it is surrounded by various industrial developments.
- The PRC legal opinion states, inter alia, that:
 - The Group has the rights to transfer, use or occupy the Property. The transfer of the ownership of the Property is subject to relevant mortgage terms and conditions.
- Our valuation has been made on the following basis and analysis:

In the valuation of the Property in its existing state, income approach was adopted. In the process, we made reference to the existing rental income as of the valuation date, made relevant adjustments, i.e. remaining land tenure and natural vacancy, and then capitalized the said income.

With reference to the general market conditions of industrial properties, 10% was adopted to reflect the natural vacancy. And it is considered in line with the current market.

In selecting an overall capitalization rate, consideration was given to equity return requirements, age and condition of the Property, market conditions and an overall rate as shown in the general real estate. Based on these factors, the overall rate has been estimated at about 8%.

VALUATION PARTICULARS

No.	Property	Description and Tenure	Particulars of Occupancy	Market Value in existing state as at 30 June 2019
2.	An industrial complex located at No. 7 Anxiang Street, Shunyi District, Beijing City, the PRC 中國北京市順義區安祥街7號之廠房綜合體	The Property comprises an industrial complex erected on a land parcel with a site area of 19,435.70 square metres. As provided by the Company, the total gross floor area of the Property is 14,781.79 square metres. The buildings were completed in 2012. The land use rights of the Property have been granted for terms expiring on 27 November 2056 for industrial use.	As advised by the Group, the Property was owner-occupied as of the valuation date.	RMB123,800,000 (100% interest attributable to the Company: RMB123,800,000)

Notes:

1. Pursuant to a State-owned Land Use Rights Certificate (國有土地使用證), Jing Shun Gao Yong (2006 Chu) Zi No. 00203 issued by the People's Government of Shunyi District Beijing City (北京市順義區人民政府) dated 18 December 2006, the land use rights of the Property with site area of 19,435.70 square metres was granted to 北京天竺興業軟件技術有限公司 for a term expiring on 27 November 2056 for industrial use.
2. Pursuant to a Building Ownership Certificate (房屋所有權證), X Jing Fang Quan Zheng Shun Zi No 274736, issued by the Housing and Urban Development Committee of Beijing City (北京市住房和城鄉建築委員會), the ownership of the building with gross floor area of approximately 14,781.79 square metres is held by the 北京天竺興業軟件技術有限公司. As per certificate, 北京天竺興業軟件技術有限公司 entered into a mortgage with 中關村科技融資擔保有限公司 dated 30 August 2016.
3. 北京天竺興業軟件技術有限公司 is 100% indirectly wholly owned subsidiary of the Company.
4. As advised by the Company, no building ownership certificates have been obtained for buildings with a total gross floor area of about 2,000 square metres. In the course of valuation, we have attributed no commercial value for this portion.
5. The Property is located in Zone B of Tianzhu airport Economic Development Zone, which was established in 1994. It is about 1 kilometer away from Beijing International Airport, and about 30-min driving distance from subject property to the CBD area of Beijing. It conforms with the neighboring environment, as it is surrounded by various industrial developments.
6. The PRC legal opinion states, inter alia, that:
 - a) The Group possesses the proper title to the Property. The transfer of the ownership of the Property is subject to relevant mortgage terms and conditions.
7. Our valuation has been made on the following basis and analysis:

In the valuation of the Property in its existing state, cost approach was adopted. It begins with the determination of land value, which is valued by the market method. Once land value has been determined, reproduction or replacement costs of the improvements are estimated as if the improvements were new. The estimate is then further adjusted for all elements of accrued depreciation including physical depreciation, functional and/or external obsolescence. To determine the land value, we have made reference to various recent sales prices of industrial land parcels within the vicinity.

To derive the land value, we have made reference to the transaction of land sales. The land comparable are selected as they have characteristics comparable to the land parcel of the Property. The price range of the comparables is from RMB2,200 per square metre to RMB 2,600 per square metre on site area. The site unit rate assumed by us is consistent with the sales prices of relevant comparables after due adjustments. Due adjustments to the unit rate of those sales prices have been made to reflect to the difference in transaction time, size, location and land tenure. In the course of our valuation, we have adopted average unit rate of RMB2,290 per square metre on site area.

For the buildings of the Property, we have made reference to the prevailing construction costs in the vicinity to derive the replacement cost. The adopted unit cost is about RMB5,700 per square metre. After the determination of replacement cost, we have made further adjustment depreciation of the buildings.

VALUATION PARTICULARS

No.	Property	Description and Tenure	Particulars of Occupancy	Market Value in existing state as at 30 June 2019
3.	Office Unit Nos. 1117 & 1119 on 11th Floor, Haitai Plaza, No. 229 North 4th Ring Zhong Road, Haidian District, Beijing City, the PRC	The Property comprises two office units on level 11 of a 17-storey office building, Haitai Plaza, which were built in 2007. As provided by the Company, the total gross floor area of the Property is approximately 515.80 square metres. The land use rights of the Property have been granted for a term expiring on 25 November 2049 for composite use.	As advised by the Group, the Property was owner-occupied as of the valuation date	RMB15,400,000 (100% interest attributable to the Company: RMB15,400,000)

中國北京市海澱區
北四環中路229號海
泰大廈11樓1117及
1119室

Notes:

- Pursuant to a State-owned Land Use Rights Certificate (國有土地使用證), Jing Hai Gao Yong (2008 Zhuan) No. 4513 issued by the People's Government of Haidian District of Beijing City (北京市海澱區人民政府) dated 30 July 2008, the land use rights of the Property with site area of 96.31 square metres was granted to 北京康吉森自動化設備技術有限責任公司 for a term expiring on 25 November 2049 for composite use. As per certificate, the land use rights of the Property is subject to a mortgage with a loan period from 15 November 2018 to 15 November 2019.
- Pursuant to two Building Ownership Certificates (房屋所有權證), Jing Fang Quan Zheng Hai Qi Zi No 00613 and Jing Fang Quan Zheng Hai Qi Zi No 00614, issued by the Land Resources and Housing Management Bureau of Beijing City (北京市國土資源和房屋管理局), the building ownership of two office units with a total gross floor area of 515.80 square metres are held by the 北京康吉森自動化設備技術有限責任公司.
- 北京康吉森自動化設備技術有限責任公司 is 100% indirectly wholly owned subsidiary of the Company.
- Haitai Plaza is situated on the north side of North 4th Zhong Road of Haidia District. The immediately locality is commercial and residential area. Developments in the vicinity mainly comprise office buildings and residential buildings of various ages and heights.
- The PRC legal opinion states, inter alia, that:
 - The Group has the rights to transfer, use or occupy the Property. The transfer of the ownership of the Property is subject to relevant mortgage terms and conditions.
- Our valuation has been made on the following basis and analysis:

In the valuation of the property in its existing state, market approach was adopted. By market approach, we had made reference to various recent sales prices of office units within the same vicinity.

The comparable units are selected as they have characteristics comparable to the subject Property. The price range of the comparables is from RMB28,000 to RMB45,000 per square metre on gross floor area. The unit rate assumed by us is consistent with the sales prices of relevant comparables after due adjustments. Due adjustments to the unit rates of those sales prices have been made to reflect to the difference in type of source, transaction time, size, age, floor level, location and building quality. In the course of our valuation, we have adopted average unit rate of RMB29,800 per square metre on gross floor area.

VALUATION PARTICULARS

No.	Property	Description and Tenure	Particulars of Occupancy	Market Value in existing state as at 30 June 2019
4.	An industrial complex located at South of Xueyuan Road, West of Aishan Road, Litong District, Wuzhong City, Ningxia, the PRC 中國寧夏吳忠市利通區學院路南側，艾山路北側的廠房綜合體	The Property comprises an industrial complex erected on 2 connective land parcels with total site area of 337,247.10 square metres. The building were completed in between 2016 and 2018. The total gross floor area is approximately 119,383 square meters. The land use rights of the Property have been granted for terms expiring on 21 April 2065 for industrial use.	As advised by the Group, the Property was owner-occupied as of the valuation date.	RMB326,800,000 (100% interest attributable to the Company: RMB326,800,000)

Notes:

- Pursuant to two State-owned Land Use Rights Certificates (國有土地使用證), Wu Guo Yong (2015) No. 60029 and Wu Guo Yong (2015) No. 60030 (吳國用 (2015) 第60029號, 第60030號) dated on 26 May, 2015, two industrial land parcels with a total site area of 337,247.10 square metres were granted to 吳忠儀表有限責任公司 for a term expiring on 21 April 2065 for industrial use.
- Pursuant to the State-owned Construction Land Grant Contract, Wu Guo Tu (He) Zi No. 2014-33, entered into between 吳忠儀表有限責任公司 and Land Resources Bureau of Wuzhong City dated 22 April 2015, the land use rights with site area of 150,597.30 square metres was granted to 吳忠儀表有限責任公司 with a term of 50 years for industrial use at a consideration of RMB14,457,600.
- Pursuant to the State-owned Construction Land Grant Contract, Wu Guo Tu (He) Zi No. 2014-34, entered into between 吳忠儀表有限責任公司 and Land Resources Bureau of Wuzhong City dated 22 April 2015, the land use rights with site area of 186,649.80 square metres was granted to 吳忠儀表有限責任公司 with a term of 50 years for industrial use at a consideration of RMB17,918,400.
- Pursuant to the Construction Land Planning Permit (建設用地規劃許可證), Di Zi No. Wu Cheng YD 2015066 issued by Planning and Urban Management Bureau of Wuzhong City dated 29 May 2015, the permitted planning land area of 505.87 mu (about 337,248 square metres) was approved for industrial use.
- Pursuant to the Construction Works Planning Permit (建設工程規劃許可證), Jian Zi No. GHX2015070 issued by Planning and Urban Management Bureau of Wuzhong City dated 7 July 2015, the construction works of buildings with total area of 59,515 square metres were permitted.
- Pursuant to the Construction Works Planning Permit (建設工程規劃許可證), Jian Zi No. GHX2015094 issued by Planning and Urban Management Bureau of Wuzhong City dated 21 August 2015, the construction works of building with total area of 19,601 square metres were permitted.
- Pursuant to the Construction Works Planning Permit (建設工程規劃許可證), Jian Zi No. GHX2016071 issued by Planning and Urban Management Bureau of Wuzhong City dated 8 June 2016, the construction works of buildings with total area of 39,396 square metres were permitted.
- Pursuant to the Construction Works Planning Permit (建設工程規劃許可證), Jian Zi No. GHX2017038 issued by Planning and Urban Management Bureau of Wuzhong City dated 24 April 2017, the construction works of building with total area of 871 square metres were permitted.

9. Pursuant to the Construction Works Commencement Permit (建築工程施工許可證) No. 6421012015091511203 issued by Planning and Urban Management Bureau of Wuzhong City dated 29 October 2015, the commencement of construction work of building with total area of 19,601 square metres were approved.
10. Pursuant to the Construction Works Commencement Permit (建築工程施工許可證) No. 6421012015091511303 issued by Planning and Urban Management Bureau of Wuzhong City dated 3 November 2015, the commencement of construction work of building with total area of 58,680 square metres were approved.
11. Pursuant to the Construction Works Commencement Permit (建築工程施工許可證) No. 64210120160919GY03 issued by Planning and Urban Management Bureau of Wuzhong City dated 19 September 2016, the commencement of construction work with total area of 39,106 square metres were approved.
12. Pursuant to the Construction Works Commencement Permit (建築工程施工許可證) No. 64210120170526GJ03 issued by Planning and Urban Management Bureau of Wuzhong City dated 26 May 2017, the commencement of construction work with total area of 871 square metres were approved.
13. Pursuant to the mortgage contracts 2015 Nian Zhong Yin Wu Di Zi Nos. 0054-1 and 0054-2 entered into between 吳忠儀表有限責任公司 and Bank of China Shares Company Limited – Wuzhong City Branch dated 5 November 2015, the Property was subject to two mortgages.
14. As advised by the Company, no building ownership certificate nor other relevant construction permit has been obtained for a dormitory with a total gross floor area of about 500 square metres. In the course of valuation, we have attributed no commercial value for this portion.
15. The Property is located near the centre of Wuzhong City. It is about 30 minutes driving distance from subject property to the Qintongxia Railway Station and 15 minutes driving distance to city centre. The economic outlook for both the immediate and long-term future of Guangzhou City is considered to be reasonable.
16. The PRC legal opinion states, inter alia, that:
 - a) The Group possesses the proper title to the Property. The transfer of the ownership of the Property is subject to relevant mortgage terms and conditions.
 - b) The construction works were completed, and relevant construction permits have been obtained.
17. Our valuation has been made on the following basis and analysis:

In the valuation of the Property in its existing state, cost approach was adopted. It begins with the determination of land value, which is valued by the market method. Once land value has been determined, reproduction or replacement costs of the improvements are estimated as if the improvements were new. The estimate is then further adjusted for all elements of accrued depreciation including physical depreciation, functional and/or external obsolescence. To determine the land value, we have made reference to various recent sales prices of industrial land parcels within the vicinity.

To derive the land value, we have made reference to the transaction of land sales. The land comparable are selected as they have characteristics comparable to the land parcel of the Property. The price range of the comparables is from RMB115 per square metre to RMB127 per square metre on site area. The site unit rate assumed by us is consistent with the sales prices of relevant comparables after due adjustments. Due adjustments to the unit rate of those sales prices have been made to reflect to the difference in transaction time, size, location and land tenure. In the course of our valuation, we have adopted average unit rate of RMB118 per square metre on site area.

For the buildings of the Property, we have made reference to the prevailing construction costs in the vicinity to derive the replacement cost. The range of adopted unit costs is from RMB1,700 to RMB5,600 per square metre for different building types. After the determination of replacement cost, we have made further adjustment depreciation of the buildings.

VALUATION PARTICULARS

No.	Property	Description and Tenure	Particulars of Occupancy	Market Value in existing state as at 30 June 2019
5.	Construction-in-progress (“CIP”) works erected on three land parcels located at Kaiyuan Avenue and Binhe Avenue, Jinji Industrial Park, Litong District, Wuzhong City, Ningxia, the PRC 中國寧夏吳忠市利通區金積工業園區開元大道及濱河大道之三塊土地及在建工程	The Property comprises an industrial land parcel with a site area of 302,858.10 square metres and two residential land parcels with a total site area of 134,698.50 square metres for dormitory use. As advised by the Company, the CIP works of workshop are scheduled to be completed in September 2019. The land use rights of industrial land of the Property has been granted for a term expiring on 29 March 2066 for industrial use. The land use rights of residential land parcel of the Property have been granted for terms expiring on 4 May 2086 and 19 May 2086 for residential use and 19 May 2056 for wholesale and retail use.	As advised by the Group, the workshop of the Property was under construction while the residential land parcels for dormitory use were vacant as of the valuation date.	RMB208,100,000 (100% interest attributable to the Company: RMB208,100,000)

Notes:

- Pursuant to the Real Estate Certificate (不動產權證), Ning (2018) Li Tong Qu Bu Dong Chan Quan No. W0007299 (寧(2018)利通區不動產權第W0007299), a land parcel with a site area of 302,858.10 square metres was granted to 吳忠儀表有限責任公司 for a term expiring on 29 March 2066 for industrial use.
- Pursuant to the Real Estate Certificate (不動產權證), Ning (2019) Li Tong Qu Bu Dong Chan Quan No. W0005153 (寧(2019)利通區不動產權第W0005153), a land parcel with a site area of 87,133 square metres was granted to 吳忠儀表產業基地開發有限公司 for a term expiring on 4 May 2086 for residential use.
- Pursuant to the Real Estate Certificate (不動產權證), Ning (2019) Li Tong Qu Bu Dong Chan Quan No. W0005324 (寧(2019)利通區不動產權第W0005324), a land parcel with a site area of 47,565.50 square metres was granted to 吳忠儀表產業基地開發有限公司 for a term expiring on 19 May 2086 for residential use and 19 May 2056 for wholesale and retail use.
- Pursuant to the Construction Land Use Rights Transfer Contract Wu Guo Tu (He) Zi No. 2015-95 entered into between the Land Resources Bureau of Wuzhong City and 吳忠儀表產業基地開發有限公司 dated 8 March 2016, the land use rights of a residential land parcel with a site area of 87,133 square metres were granted to 吳忠儀表產業基地開發有限公司 for a term of 70 years at a consideration of RMB69,271,000.
- Pursuant to the Construction Land Use Rights Transfer Contract Wu Guo Tu (he) Zi No. 2016-20 entered into between the Land Resources Bureau of Wuzhong City and 吳忠儀表產業基地開發有限公司 dated 5 May 2016, the land use rights of a land parcel with a site area of 47,565.50 square metres were granted to 吳忠儀表產業基地開發有限公司 for a term of 70 years for residential use and a term of 40 years for wholesale retail use at a consideration of RMB38,315,000.
- Pursuant to the State-owned Construction Land Grant Contract, Wu Guo Tu (He) Zi No. 2016-12, entered into between 吳忠儀表有限責任公司 and Land Resources Bureau of Wuzhong City dated 30 March 2016, the land use rights with site area of 302,858.10 square metres was granted to 吳忠儀表有限責任公司 with a term of 50 years for industrial use at a consideration of RMB29,983,200.

7. Pursuant to Construction Land Use Planning Permit Di Zi Di Wu Cheng No. YD2018026 dated 19 July 2018 issued by the Planning Bureau of Wuzhong City, the construction works the Property were approved.
8. Pursuant to the Construction Works Planning Permit No. Jian Zi Di GHX20180505, dated 1 August 2018, issued by the Planning Bureau of Wuzhong City, the construction works of buildings with total area of 50,696 square metres were approved.
9. Pursuant to the Construction Works Commencement Permit No. 64210120181205GJ03-53 dated 5 December 2018 issued by the Housing and Urban Rural Construction Bureau of Wuzhong City, the commencement of construction works of buildings with total area of 50,696 square metres were approved.
10. The Property is located near the centre of Wuzhong City. It is about 30 minutes driving distance from the subject Property to the Qintongxia Railway Station and 15 minutes driving distance to city centre. The economic outlook for both the immediate and long-term future of Guangzhou City is considered to be reasonable.
11. As advised by the Company, the construction cost paid related to the CIP works with relevant construction permits as of the valuation date is approximately RMB59,500,000, while the outstanding construction cost is approximately RMB10,500,000. The construction work is scheduled to be completed in September 2019.
12. As advised by the Company, the construction cost paid related to the CIP work with no planning permit or construction permit is approximately RMB3,330,000. The floor area of the said CIP is about 1,226 square metres. In the course of valuation, we have attributed no commercial value to this portion.
13. The market value of the Property as if completed as of the valuation date according to the development plan as described above would be RMB218,600,000 excluding the CIP works mentioned in No. 12.
14. The PRC legal opinion states, inter alia, that:
 - a) The Group possesses the proper title to the land use rights and CIP works of buildings with area of 50,696 square metres of the Property.
 - b) Due to the lack of relevant document(s), the CIP work of building with area of 1,226 square metres may be subject to a suspension, penalty or demolition. If the said penalty is imposed, the fine will be less than RMB370,000 based on cost on the construction contract provided by the Group. If relevant planning conditions and details are fulfilled, construction works planning permit for the said building will be issued. In this case, the risk of demolition is low.
15. Our valuation has been made on the following basis and analysis:

In the valuation of the Property in its existing state, cost approach was adopted. It begins with the determination of land value, which is valued by the market method. Once land value has been determined, reproduction or replacement costs of the improvements are estimated as if the improvements were new. The estimate is then further adjusted for all elements of accrued depreciation including physical depreciation, functional and/or external obsolescence. To determine the land values, we have made reference to various recent sales prices of industrial and residential land parcels within the vicinity.

The industrial land comparable are selected as they have characteristics comparable to the industrial land parcel of Property. The price range of the comparables is from RMB115 per square metre to RMB127 per square metre on site area. The unit rate assumed by us is consistent with the sales prices of relevant comparables after due adjustments. Due adjustments to the unit rates of those sales prices have been made to reflect to the difference in type of source, transaction time, size, age, location and land tenure. In the course of our valuation, we have adopted average unit rate of RMB119 per square metre on site area.

The residential comparable are selected as they have characteristics comparable to the residential land parcel of Property. The price range of the comparables is from RMB460 per square metre to RMB635 per square metre on maximum permitted gross floor area. The unit rate assumed by us is consistent with the sales prices of relevant comparables after due adjustments. Due adjustments to the unit rates of those sales prices have been made to reflect to the difference in type of source, transaction time, size, age, location and land tenure. In the course of our valuation, we have adopted average unit rate of RMB 496 per square metre on total permitted gross floor area.

VALUATION PARTICULARS

No.	Property	Description and Tenure	Particulars of Occupancy	Market Value in existing state as at 30 June 2019
6.	Two connective land parcels with two industrial buildings erected thereon located at Qingtan Nan Road, Qingtongxia Town, Qingtongxia City, Ningxia, the PRC 中國寧夏青銅峽市 青銅峽鎮青灘南路 之兩塊土地及兩幢 房屋	The Property comprises 2 connective land parcels with a total site area of 38,626.90 square metres and 2 buildings erected thereon. The buildings have a total gross floor area of 1,424 square meters and were completed in between 1988 and 1997. The land use rights of the Property have been granted for a term expiring on 26 May 2056 for storage use.	As advised by the Group, the Property was subject to a tenancy agreement with a monthly rental of RMB 3,333 with the term expiring on 28 February 2023.	RMB4,200,000 (100% interest attributable to the Company: RMB4,200,000)

Notes:

- Pursuant to State-owned Land Use Rights Certificates (國有土地使用證), Qing Guo Yong (2010) No. 0208 (青國用(2010)第0208號) issued by the People's Government of Qingtongxia City, a land parcel with a site area of 1,136.70 square metres was granted to 吳忠儀表有限責任公司 for a term expiring on 26 May 2056 for storage use.
- Pursuant to State-owned Land Use Rights Certificates (國有土地使用證), Qing Guo Yong (2010) No. 0209 (青國用(2010)第0209號) issued by the People's Government of Qingtongxia City, a land parcel with a site area of 37,490.20 square metres was granted to 吳忠儀表有限責任公司 for a term expiring on 26 May 2056 for storage use.
- Building ownership certificates of two buildings have not been obtained as of the valuation date. In the course of valuation, we have assessed land value only and attributed no commercial value to the two said buildings.
- The Property is located near the city centre. It is about 5 minutes driving distance to Qingtongxia Railway Station. It conforms with the neighboring environment, as it is surrounded by various industrial developments.
- The PRC legal opinion states, inter alia, that:
 - The Group has the rights to transfer, use or occupy the land parcels of the Property.
- Our valuation has been made on the following basis and analysis:

In the valuation of the property in its existing state, market approach was adopted. By market approach, we had made reference to various recent sales prices of industrial land parcels within the same vicinity.

The land comparables are selected as they have characteristics comparable to the Property. The price range of the comparables is from RMB105 per square metre to RMB107 per square metre on site area. The site unit rate assumed by us is consistent with the sales prices of relevant comparables after due adjustments. Due adjustments to the unit rates of those sales prices have been made to reflect to the difference in type of source, transaction time, size, age, location and land tenure. In the course of our valuation, we have adopted average unit rate of RMB109 per square metre on site area.

VALUATION PARTICULARS

No.	Property	Description and Tenure	Particulars of Occupancy	Market Value in existing state as at 30 June 2019
7.	An industrial land parcel located at South of Caobu Village, Rushan City, Shandong Province, the PRC 中國山東乳山市草埠村南之工業土地	The subject Property comprises a land parcel with a site area of 6,681 square metres. The land use rights of the Property has been granted for a term expiring on 31 July 2048 for industrial use.	As advised by the Group, the Property was subject to a tenancy agreement with a monthly rental of RMB 1,333 with a term expiring on 31 December 2019.	RMB1,400,000 (100% interest attributable to the Company: RMB1,400,000)

Notes:

1. Pursuant to State-owned Land Use Rights Certificate (國有土地使用證), Ru Guo Yong (2010) No. 1030 (乳國用(2010)第1030號) issued by People's Government of Rushan City, a land parcel with a site area of 6,681 square metres was granted to 吳忠儀表有限責任公司 for a term expiring on 31 July 2048 for industrial use.
2. The Property is located at near the city centre. It is about 15 minutes driving distance to coach station and about 20 minutes driving distance to Rushan Railway Station. It conforms with the neighboring environment. The economic outlook for both the immediate and long-term future is reasonable.
3. The PRC legal opinion states, inter alia, that:
 - a) The Group has the rights to transfer, use or occupy the Property.
4. Our valuation has been made on the following basis and analysis:

In the valuation of the property in its existing state, market approach was adopted. By market approach, we had made reference to various recent sales prices of industrial land parcels within the same vicinity.

The land comparable are selected as they have characteristics comparable to the subject Property. The price range of the comparables is from RMB228 per square metre to RMB252 per square metre on site area. The site unit rate assumed by us is consistent with the sales prices of relevant comparables after due adjustments. Due adjustments to the unit rates of those sales prices have been made to reflect to the difference in type of source, transaction time, size, age, location and land tenure. In the course of our valuation, we have adopted average unit rate of RMB217 per square metre on site area.

VALUATION PARTICULARS

No.	Property	Description and Tenure	Particulars of Occupancy	Market Value in existing state as at 30 June 2019
8.	A construction-in-progress (“CIP”) works erected on an industrial land parcel located at West of Cishan Avenue, South of Shangde Road, East of Runde Road, Jinji Industrial Park, Litong District Wuzhong City, Ningxia, the PRC	<p>The subject Property comprises a CIP project erected on a land parcel with a site area of 335,161.00 square metres.</p> <p>The CIP works is scheduled to be completed in about September 2019.</p> <p>The land use rights of the Property have been granted for terms expiring on 3 May 2068 for industrial use.</p>	As advised by the Group, the Property was under construction as of the valuation date.	<p>RMB53,200,000</p> <p>(100% interest attributable to the Company: RMB53,200,000)</p>
	<p>中國寧夏青吳忠市利通區金積工業園區慈善大道西側尚德路南側潤德路東側路之土地及在建工程</p>			

Notes:

- Pursuant to the Real Estate Rights Certificate (不動產權證), Ning (2019) Li Tong Qu Bu Dong Chan Quan No. W0000015 (寧(2019)利通區不動產權第W0000015) issued by Land Resources Bureau of Wuzhong City, a land parcel with a site area of 335,161.00 square metres was granted to 寧夏朗盛精密制造技術有限公司 for a term expiring on 3 May 2068 for industrial use.
- Pursuant to State Owned Construction Land Use Right Transfer Contract (國有建設用地使用權出讓合同) entered into between Land Resources Bureau of Wuzhong City and 寧夏朗盛精密制造技術有限公司 dated 4 May 2018, 寧夏朗盛精密制造技術有限公司 acquired the land use rights of a land parcel with 335,161 square meters at a consideration of RMB 19,305,300.
- Pursuant to the Construction Land Planning Permit (建設用地規劃許可證), Di Zi No. Wu Cheng YD 2018020 issued by Planning and Urban Management Bureau of Wuzhong City dated 4 June, 2018, the permitted planning land area of 335,161 square meters were approved for industrial use.
- Pursuant to the Construction Works Planning Permit (建設工程規劃許可證), Jian Zi No. GHX2018042 issued by Planning Bureau of Wuzhong City dated 22 June, 2018, the construction works of 3 buildings with total area of 14,583 square metres were permitted.
- Pursuant to the Construction Works Planning Permit (建設工程規劃許可證), Jian Zi No. GHX2018084 issued by Planning and Urban Management Bureau of Wuzhong City dated 2 November, 2018, the construction works of a workshop with total area of 31,832 square metres were permitted.

6. Pursuant to the Construction Works Planning Permit (建設工程規劃許可證), Jian Zi No. GHX2018085 issued by Planning Bureau of Wuzhong City dated 5 November 2018, the construction works of a workshop with total area of 33,629 square metres were permitted.
7. Pursuant to the Construction Works Commencement Permit (建築工程施工許可證) No. 64210120181121GJ03-51 issued by Housing and Urban-Rural Development Bureau of Wuzhong City dated 21 November 2018, the commencement of construction work of buildings with total floor area of 7,368 square metres was approved.
8. Pursuant to the Construction Works Commencement Permit (建築工程施工許可證) No. 64210120181121GJ03-52 issued by Housing and Urban-Rural Development Bureau of Wuzhong City dated 21 November 2018, the commencement of construction work of a building with floor area of 7,215 square metres was approved.
9. Pursuant to the mortgage contract no. 2018-TZD-002 entered into between 寧夏朗盛精密制造技術有限公司 and 寧夏朗盛和寧夏產業引導基金管理中心(有限公司) dated 20 December 2018, the Property is subject to a mortgage.
10. As advised by the Company, the construction cost paid related to the CIP works as of the valuation date is approximately RMB27,900,000, while the outstanding construction cost is approximately RMB21,800,000. In the course of valuation, we have taken it into consideration. The construction work is scheduled to be completed in about September 2019.
11. The market value of the Property as if completed as of the valuation date according to the development plan as described above would be RMB68,800,000 including RMB19,200,000 of land value and RMB49,600,000 of total CIP cost. With reference to the percentage of physical completion of 68%, the value in existing state of CIP portion is about RMB34,000,000. Total value in existing state would be RMB53,200,000 which is equal to the land value of RMB19,200,000 plus the CIP cost of RMB34,000,000.
12. The Property is located near the centre of Wuzhong City. It is about 30 minutes driving distance from subject property to the Qintongxia Railway Station and 15 minutes driving distance to city centre. The economic outlook for both the immediate and long-term future of Guangzhou City is considered to be reasonable.
13. The PRC legal opinion states, inter alia, that:
 - a) The Group possesses the proper title to the Property. The transfer of the ownership of the Property is subject to relevant mortgage terms and conditions.
 - b) The Property is under construction process, relevant construction permits have been obtained.
14. Our valuation has been made on the following basis and analysis:

In the valuation of the Property in its existing state, cost approach was adopted. It begins with the determination of land value, which is valued by the market method. Once land value has been determined, reproduction or replacement costs of the improvements are estimated as if the improvements were new. The estimate is then further adjusted for all elements of accrued depreciation including physical depreciation, functional and/or external obsolescence. To determine the land value, we have made reference to various recent sales prices of industrial land parcels within the vicinity.

To derive the land value, we have made reference to the transaction of land sales. The land comparable are selected as they have characteristics comparable to the land parcel of the Property. The unit sale price of the comparable is about RMB 58 per square metre on site area. The site unit rate assumed by us is consistent with the sales prices of relevant comparables after due adjustments. Due adjustments to the unit rate of those sales prices have been made to reflect to the difference in transaction time, size, location and land tenure. In the course of our valuation, we have adopted average unit rate of RMB 57 per square metre on site area.

VALUATION PARTICULARS

No.	Property	Description and Tenure	Particulars of Occupancy	Market Value in existing state as at 30 June 2019
9.	Five residential unit nos. 6C1, 7C2, 10C1, 5C1 & 8C2 of Block 1, Yiyuan Building, Chaoyangdong Street, Wuzhong City, Ningxia, the PRC	The Property comprises five residential units in a 17-storey residential building completed in 2005. As provided by the Company, the total gross area of the Property is approximately 577.30 square metres	As advised by the Group, the Property was owner-occupied as of the valuation date.	RMB1,850,000 (100% interest attributable to the Company: RMB1,850,000)
	中國寧夏吳忠市朝陽東街儀苑大廈一號樓6C1, 7C2, 10C1, 5C1及8C2號			

Notes:

1. Pursuant to the Building Ownership Certificates, Wu Zhong Shi Fang Quan Zheng Shi Qu Zi Nos. 00087690 – 00087694 (吳忠市房權證市區字第00087690號) issued by the Property Right Management Bureau of Wuzhong City (吳忠市房屋產權產籍管理所), registered on 16 March 2011, the building ownership of the Property with a gross floor area of 577.30 square metres is held by 吳忠儀表有限責任公司 for residential use.
2. The Property is located at Litong District which is close to the downtown area of Wuzhong City. The immediate neighborhood of the Property is surrounded predominantly by residential property. The economic outlook for both the immediate and long-term future of Wuzhong City is considered to be reasonable.
3. The PRC legal opinion states, inter alia, that:
 - a) The Group has the rights to transfer, occupy or use the Property.
4. Our valuation has been made on the following basis and analysis:

In the valuation of the property in its existing state, market approach was adopted. By market approach, we had made reference to various recent sales prices of residential units within the same vicinity.

The comparable units are selected as they have characteristics comparable to the subject Property. The price range of the comparables is from RMB3,000 per square metre to RMB3,400 per square metre on gross floor area. The unit rate assumed by us is consistent with the sales prices of relevant comparables after due adjustments. Due adjustments to the unit rates of those sales prices have been made to reflect to the difference in type of source, size, age, floor level and location. In the course of our valuation, we have adopted average unit rate of RMB3,200 per square metre on gross floor area.

VALUATION PARTICULARS

No.	Property	Description and Tenure	Particulars of Occupancy	Market Value in existing state as at 30 June 2019
10.	<p>Six residential unit nos. 202 & 302 of Unit 1 and no. 103 of Unit 2 of Block 33, nos. 602 of unit 1 and 604 of unit 2 of Block 30 and no. 601 of unit 1 of Block 29, AB zone, Tianyuitiancheng, Yingbin Road, Qipanjing Town, Etukeqi, Erdos City, Inner Mongolia, the PRC</p> <p>中國內蒙古鄂爾多斯市鄂托克旗棋盤井鎮迎賓路西天譽天城AB區33號樓1單元202&302室及2單元103室, 30號樓1單元602室及2單元604室, 29號樓1單元601室</p>	<p>The Property comprises three residential unit at Block 33, 2 residential units at Block 30 and 1 unit at Block 29.</p> <p>Block 33 is a 13-storey building while Blocks 29 and 30 are 7-storey buildings. The buildings were completed in about 2008.</p> <p>As provided by the Company, the total gross area of the Property is approximately 1,050.42 square metres.</p> <p>The land use rights of Blocks 30 & 33 of the Property have been granted for a term expiring on 13 May 2066 for residential use. The land use rights of Block 29 of the Property has been granted for a term expiring on 15 September 2066 for residential use.</p>	<p>As advised by the Group, the Property was vacant as of the valuation date.</p>	<p>RMB2,400,000</p> <p>(100% interest attributable to the Company: RMB2,400,000)</p>

Notes:

1. Pursuant to the Building Ownership Certificate Meng Fang Quan Zheng Eutokeqi Qi Pan Jing Zhen Zi Nos. 2021301778-2021301781, 2021301776 & 2021400974 (蒙房權證鄂托克旗棋盤井鎮字第2021301778-2021301781, 2021301776 & 2021400974號) issued by the Eutokeqi Bureau of Housing and Urban-Rural Planning and Construction (鄂托克旗住房和城鄉規劃建設局), registered on 30 December 2013 and 18 November 2014 respectively, the building ownership of the Property with a gross floor area of 1,050.42 square metres is held by 吳忠儀表有限責任公司 for residential use.
2. The subject Property is located at Qipanjing Town which is a county under the jurisdiction of Eutokeqi City. The immediate neighborhood of the Property is surrounded predominantly by residential property. The economic outlook for both the immediate and long-term future of Eutokeqi City is considered to be reasonable.
3. The PRC legal opinion states, inter alia, that:
 - a) The Group possesses the proper title to the Property.
4. Our valuation has been made on the following basis and analysis:

In the valuation of the property in its existing state, market approach was adopted. By market approach, we had made reference to various recent sales prices of residential units within the same vicinity.

The comparable units are selected as they have characteristics comparable to the subject Property. The price range of the comparables is from RMB2,400 per square metre to RMB2,600 per square metre on gross floor area. The unit rate assumed by us is consistent with the sales prices of relevant comparables after due adjustments. Due adjustments to the unit rates of those sales prices have been made to reflect to the difference in type of source, size, age, floor level and location. In the course of our valuation, we have adopted average unit rate of RMB2,300 per square metre on gross floor area.

VALUATION PARTICULARS

No.	Property	Description and Tenure	Particulars of Occupancy	Market Value in existing state as at 30 June 2019
11.	Eight residential unit nos. 1801, 1901 & 2802 of unit 2 and no. 2801 of unit 3 of Block 11, nos. 1801, 1901 & 2001 of unit 2 of Block 15 and no. 2403 of unit 1 of Block 18 of Lanxigu Community, East of Lijingbei Street, Xingqing District, Yinchuan City, Ningxia, the PRC 中國寧夏銀川市興慶區麗景北街東側蘭溪谷小區11號樓2單元1801, 1901及2802室, 11號樓3單元2801室, 15號樓2單元1801, 1901及2001室及18號樓1單元2403室	<p>The Property comprises four residential unit at Block 11, three residential units at Block 15 and 1 unit at Block 18.</p> <p>Blocks 15 & 18 are 28-storey buildings while Block 11 is a 32-storey building. The buildings were completed in about 2013.</p> <p>As provided by the Company, the total gross area of the Property is approximately 1,050.04 square metres.</p> <p>The land use rights of the Property has been granted for a term expiring on 27 June 2083 for residential use.</p>	As advised by the Group, the Property was vacant as of the valuation date.	RMB6,570,000 (100% interest attributable to the Company: RMB6,570,000)

Notes:

- Pursuant to the Building Ownership Certificate Fang Quan Zheng Xing Qing Qu Zi No. 2015086764 (房權證興慶區字第2015086764號) issued by the Housing and Urban-Rural Construction Bureau of Yinchuan City (銀川市住房和城鄉建設局), registered on 11 December 2015, 11 January 2016 and 25 May 2016 respectively, the building ownership of the Property with a gross floor area of 128.77 square metres is held by 吳忠儀表有限責任公司 for residential use.
- Pursuant to the Building Ownership Certificate Fang Quan Zheng Xing Qing Qu Zi No. 2015086760 (房權證興慶區字第2015086760號) issued by the Housing and Urban-Rural Construction Bureau of Yinchuan City (銀川市住房和城鄉建設局), the building ownership of the Property with a gross floor area of 128.77 square metres is held by 吳忠儀表有限責任公司 for residential use.
- Pursuant to the Building Ownership Certificate Fang Quan Zheng Xing Qing Qu Zi No. 2015086758 (房權證興慶區字第2015086758號) issued by the Housing and Urban-Rural Construction Bureau of Yinchuan City (銀川市住房和城鄉建設局), the building ownership of the Property with a gross floor area of 128.77 square metres is held by 吳忠儀表有限責任公司 for residential use.
- Pursuant to the Building Ownership Certificate Fang Quan Zheng Xing Qing Qu Zi No. 2015086761 (房權證興慶區字第2015086761號) issued by the Housing and Urban-Rural Construction Bureau of Yinchuan City (銀川市住房和城鄉建設局), the building ownership of the Property with a gross floor area of 133.74 square metres is held by 吳忠儀表有限責任公司 for residential use.

5. Pursuant to the Building Ownership Certificate Fang Quan Zheng Xing Qing Qu Zi No. 2015086762 (房權證興慶區字第2015086762號) issued by the Housing and Urban-Rural Construction Bureau of Yinchuan City (銀川市住房和城鄉建設局), the building ownership of the Property with a gross floor area of 133.74 square metres is held by 吳忠儀表有限公司 for residential use.
6. Pursuant to the Building Ownership Certificate Fang Quan Zheng Xing Qing Qu Zi No. 2016060465 (房權證興慶區字第2015086765號) issued by the Housing and Urban-Rural Construction Bureau of Yinchuan City (銀川市住房和城鄉建設局), the building ownership of the Property with a gross floor area of 128.77 square metres is held by 吳忠儀表有限公司 for residential use.
7. Pursuant to the Building Ownership Certificate Fang Quan Zheng Xing Qing Qu Zi No. 2016073451 (房權證興慶區字第2016073451號) issued by the Housing and Urban-Rural Construction Bureau of Yinchuan City (銀川市住房和城鄉建設局), the building ownership of the Property with a gross floor area of 133.74 square metres is held by 吳忠儀表有限公司 for residential use.
8. Pursuant to the Building Ownership Certificate, Fang Quan Zheng Xing Qing Qu Zi Di 2016073454 (房權證興慶區字第2016073454號) issued by the Housing and Urban-Rural Construction Bureau of Yinchuan City (銀川市住房和城鄉建設局), the building ownership of the Property with a gross floor area of 133.74 square metres is held by 吳忠儀表有限公司 for residential use.
9. The subject Property is located at Xingqing District which is close to the downtown area of Yinchuan City. Two main city road, Lijingbei Street and Helanshandong Road, are close to the Property. The immediate neighborhood of the Property is surrounded predominantly by residential property. The economic outlook for both the immediate and long-term future of Yinchuan City is considered to be reasonable.
10. The PRC legal opinion states, inter alia, that:
 - a) The Group possesses the proper legal title to the Property.
11. Our valuation has been made on the following basis and analysis:

In the valuation of the property in its existing state, market approach was adopted. By market approach, we had made reference to various recent sales prices of residential units within the same vicinity.

The comparable units are selected as they have characteristics comparable to the subject Property. The price range of the comparables is from RMB6,200 per square metre to RMB6,700 per square metre on gross floor area. The unit rate assumed by us is consistent with the sales prices of relevant comparables after due adjustments. Due adjustments to the unit rates of those sales prices have been made to reflect to the difference in type of source, size, age, floor level and location. In the course of our valuation, we have adopted average unit rate of RMB6,260 per square metre on gross floor area.

VALUATION PARTICULARS

No.	Property	Description and Tenure	Particulars of Occupancy	Market Value in existing state as at 30 June 2019
12.	A hospital located at No.1388, Gaoxin Road, Songling Town, Wujiang District, Suzhou City, Jiangsu Province, the PRC 中國江蘇省蘇州市吳江區松陵鎮高新路1388號之醫院	Suzhou Yongding Hospital comprises two blocks of Inpatient department buildings, one block of outpatient department, three blocks of dormitory, 2 blocks of office buildings, a block of hyperbaric treatments building and facilities. The buildings were completed in between 2007 and 2018. As provided, the gross floor area of the Property is approximately 70,147.12 square metres The land use rights of the Property have been granted for a term expiring on 9 September 2055 for Medical and Charity uses.	As advised by the Group, the Property was operated by the Company as of the valuation date.	RMB271,000,000 (58.8% interest attributable to the Company: RMB159,300,000)

Notes:

- Pursuant to a State-owned Land Use Certificate (國有土地使用證), Wu Guo Yong (2015) No. 1002953 issued by the People's Government of Wujiang District, Suzhou City (蘇州市吳江區人民政府) dated 5 May 2015, the land use rights of the Property is held by Wujiang Yongding Hospital Co., Ltd for a term expiring on 9 September 2055 for Medical & Charity use.
- Pursuant to a Building Ownership Certificate, Su Fang Quan Zheng Wu Jiang Zi No. 25054844, a building with a total gross floor area of 1,880.34 square metres is held by Suzhou Yongding Hospital for Educational, Medical and health research.
- Pursuant to a Building Ownership Certificate, Su Fang Quan Zheng Wu Jiang Zi No. 25054845, buildings with a total gross floor area of 46,359.93 square metres is held by Suzhou Yongding Hospital for Educational, Medical and health research.
- Pursuant to a Building Ownership Certificate, Su Fang Quan Zheng Wu Jiang Zi No. 25054846, buildings with a total gross floor area of 6,613.34 square metres is held by Suzhou Yongding Hospital for Educational, Medical and health research.
- Pursuant to a Construction Works Planning Permit, Jian Zi No. 32058420151157, issued by the Planning Bureau of Wujiang District of Suzhou City, the construction works with a total gross floor area about 14,834.02 square metres were approved.
- Pursuant to a Construction Works Planning Permit, Jian Zi No. 320584201701090, issued by the Planning Bureau of Wujiang District of Suzhou City, the construction works with a total gross floor area about 416.68 square metres were approved.
- Pursuant to the Construction Works Commencement Permit No. 320584201603210101 issued by Housing and Urban-Rural Development Bureau of Wujiang District of Suzhou City, the construction work with a total gross floor area about approximately 14,834.02 square metres were approved.
- Pursuant to the Construction Works Commencement Permit No. 320509201712080201 issued by Housing and Urban-Rural Development Bureau of Wujiang District of Suzhou City, the construction works with a total gross floor area about approximately 418.68 square metres were approved.

9. Pursuant to the memorandum agreement of State-owned Land Use Rights Transfer Agreement entered into between Land Resources Bureau of Wujiang City and Jiangsu Yongding Shares Company Limited, the maximum permitted plot ratio was approved to change from 0.8 to 1.58.
10. The Property is located in Songling Town of Suzhou City. It is about 50 minutes driving distance to Suzhou Railway Station and about 5 minutes driving distance to the Metro Line 4 WuJiang People's Square Station. It conforms with the neighboring environment.
11. The PRC legal opinion states, inter alia, that:
 - a) The Group possesses the proper title to the Property.
 - b) Phase 2 of the Property is under construction process, relevant construction permits have been obtained.
12. Our valuation has been made on the following basis and analysis:

In the valuation of the Property in its existing state, cost approach was adopted. It begins with the determination of land value, which is valued by the market method. Once land value has been determined, reproduction or replacement costs of the improvements are estimated as if the improvements were new. The estimate is then further adjusted for all elements of accrued depreciation including physical depreciation, functional and/or external obsolescence. To determine the land value, we have made reference to various recent sales prices of industrial land parcels within the vicinity.

To derive the land value, we have made reference to the transaction of land sales. The land comparable are selected as they have characteristics comparable to the land parcel of the Property. The price range of the comparables is from RMB780 per square metre to RMB1,160 per square metre on site area. The site unit rate assumed by us is consistent with the sales prices of relevant comparables after due adjustments. Due adjustments to the unit rate of those sales prices have been made to reflect to the difference in transaction time, size, location and land tenure. In the course of our valuation, we have adopted average unit rate of RMB900 per square metre on site area.

For the buildings of the Property, we have made reference to the prevailing construction costs in the vicinity to derive the replacement cost. The range of adopted unit costs is from RMB2,600 to RMB3,600 per square metre. After the determination of replacement cost, we have made further adjustment depreciation of the buildings.

VALUATION PARTICULARS

No.	Property	Description and Tenure	Particulars of Occupancy	Market Value in existing state as at 30 June 2019
13.	Five industrial land parcels located at Liushui Industrial Zone, east of Dongfeng Street, Fangshan District, Beijing City, the PRC	<p>The subject Property comprises 5 land parcel with a total site area of 31,698.19 square metres.</p> <p>The land use rights of the Property have been granted for terms expiring on 6 March 2055, 30 March 2055 and 4 April 2055 for industrial use.</p>	As advised by the Group, there was a pending construction work as of the valuation date.	<p>RMB48,800,000</p> <p>(51% interest attributable to the Company: RMB24,900,000)</p>
	中國北京市房山區東風街道東流水工業區之五塊工業土地			

Notes:

- Pursuant to State-owned Land Use Rights Certificate (國有土地使用證), Jing Fang Guo Yong (2011 Chu) Nos. 00121 and 00125 (京房國用(2011出)第00121及00125號) issued by People's Government of Beijing City, land parcels with a total site area of 11,831.85 square metres were granted to 北京中京實華新能源科技有限公司 for a term expiring on 4 April 2055 for industrial use.
- Pursuant to State-owned Land Use Rights Certificate (國有土地使用證), Jing Fang Guo Yong (2011 Chu) Nos. 00122 and 00124 (京房國用(2011出)第00122及00124號) issued by People's Government of Beijing City, land parcels with a total site area of 13,242.29 square metres were granted to 北京中京實華新能源科技有限公司 for a term expiring on 6 March 2055 for industrial use.
- Pursuant to State-owned Land Use Rights Certificate (國有土地使用證), Jing Fang Guo Yong (2011 Chu) No. 00123 (京房國用(2011出)第00123號) issued by People's Government of Beijing City, land parcel with a total site area of 6,624.05 square metres was granted to 北京中京實華新能源科技有限公司 for a term expiring on 30 March 2055 for industrial use.
- The Property is located in an industrial zone. It is about 1 hour driving distance to the city centre. It conforms with the neighboring environment. The economic outlook for both the immediate and long-term future is reasonable.
- The PRC legal opinion states, inter alia, that:
 - The Group possess the proper legal title to Property.
- Our valuation has been made on the following basis and analysis:

In the valuation of the property in its existing state, market approach was adopted. By market approach, we had made reference to various recent sales prices of industrial land parcels within the same vicinity.

The land comparable are selected as they have characteristics comparable to the Property. The price range of the comparables is from RMB1,300 per square metre to RMB1,740 per square metre on site area. The site unit rate assumed by us is consistent with the sales prices of relevant comparables after due adjustments. Due adjustments to the unit rates of those sales prices have been made to reflect to the difference in type of source, transaction time, size, age, location and land tenure. In the course of our valuation, we have adopted average unit rate of RMB1,540 per square metre on site area.

1. RESPONSIBILITY STATEMENTS

As of the date of this Scheme Document, the Directors comprises Mr. Xuan and Mr. Wang Chuensheng as executive Directors; and Mr. Wang Tai Wen, Mr. Zhang Xin Zhi and Mr. Ng Wing Fai as independent non-executive Directors. The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this Scheme Document (other than those relating to Brightex, AACL and their respective concert parties (excluding the Group)) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this Scheme Document (other than those expressed by the Joint Offerors and their concert parties (excluding the Group)) have been arrived at after due and careful consideration and there are no other facts not contained in this Scheme Document (other than those relating to Brightex, AACL and their respective concert parties (excluding the Group)) the omission of which would make any statement in this Scheme Document misleading.

As of the date of this Scheme Document, the sole director of AACL is Mr. Meng Liang, who is also the sole director of Ascendent Capital Partners II GP Limited (which is the general partner of the general partner of the limited partnership which wholly-owns AACL). Mr. Meng Liang accepts full responsibility for the accuracy of the information contained in this Scheme Document (other than those relating to Brightex, Mr. Xuan and the Group), and confirms, having made all reasonable enquiries, that to the best of his knowledge, opinions expressed in this Scheme Document has been arrived at after due and careful consideration and there are no other facts not contained in this Scheme Document (other than those relating to Brightex, Mr. Xuan and the Group) the omission of which would make any statement in this Scheme Document misleading.

As of the date of this Scheme Document, the sole director of Brightex is Mr. Xuan. The sole director of Brightex accepts full responsibility for the accuracy of the information contained in this Scheme Document (other than those relating to AACL and the Group), and confirms, having made all reasonable enquiries, that to the best of his knowledge, opinions expressed in this Scheme Document has been arrived at after due and careful consideration and there are no other facts not contained in this Scheme Document (other than those relating to AACL and the Group) the omission of which would make any statement in this Scheme Document misleading.

2. SHARE CAPITAL

As at the Latest Practicable Date:

- (a) the authorised share capital of the Company was HK\$30,000,000 divided into 3,000,000,000 Shares;
- (b) the Company had 1,026,263,729 Shares in issue;
- (c) the Company had not issued any new Shares since 31 December 2018, being the date to which the latest audited financial statements of the Company were made up, up to the Latest Practicable Date;

APPENDIX III. GENERAL INFORMATION ON THE COMPANY AND THE JOINT OFFERORS

- (d) all of the issued Shares rank *pari passu* in all respects as regards rights to capital, dividends and voting; and
- (e) except for the Convertible Bonds, there were no outstanding options, warrants or conversion rights affecting the Shares.

3. MARKET PRICE

The table below sets out the closing price of the Shares on the Stock Exchange on (i) the Last Trading Day; (ii) 13 June 2019, being the last trading day of the Shares prior to the publication of the Announcement; (iii) the last trading day of each of the calendar months during the Relevant Period and (iv) the Latest Practicable Date:

	Closing price for each Share (HK\$)
30 November 2018	1.08
28 December 2018 <i>(Note)</i>	1.04
31 December 2018	1.19
31 January 2019	1.04
28 February 2019	1.00
29 March 2019	0.97
30 April 2019	1.18
2 May 2019 (Last Trading Day)	1.21
31 May 2019	1.30
13 June 2019	1.34
28 June 2019	1.40
31 July 2019	1.40
28 August 2019 (Latest Practicable Date)	1.40

Note: 28 December 2018 is the last full trading day in the month of December 2018.

During the Relevant Period, the lowest and highest closing prices of Shares as quoted on the Stock Exchange were HK\$0.91 per Share on 19 December 2018 and HK\$1.40 per Share on 18 June, period covering 26 June to 9 July, 11 July to 19 July, 23 July to 26 July, 30 July to 8 August, and 28 August 2019, respectively.

The Cancellation Price of HK\$1.50 per Scheme Share represents a premium of approximately 23.97% over the closing price of HK\$1.21 per Share as quoted on the Stock Exchange on 2 May 2019 (being the Last Trading Day).

4. DISCLOSURE OF INTERESTS IN THE SHARES

For the purpose of this paragraph, “interested” and “interests” have the same meanings as given to them in Part XV of the SFO.

(a) Interests and dealings in the Shares

- (i) As at the Latest Practicable Date, the Joint Offerors and the Joint Offeror Concert Parties are interested in the following Shares:

Shareholder	Number of Shares interested	Approximate percentage of total issued share capital of the Company (%)
Joint Offerors: <i>(Note 2)</i>		
Brightex <i>(Note 1)</i>	515,696,164 (300,000,000 of which are charged in favour of AACL)	50.25
AACL	248,235,132	24.19
Joint Offeror Concert Parties not subject to the Scheme <i>(Note 2)</i>		
Mr. Xuan <i>(Note 1)</i>	1,000,000	0.10
AHCL	0	0
Offeror Concert Parties subject to the Scheme:		
Ascendent Employee <i>(Note 2)</i>	250,000	0.02
Aggregate number of Shares held by the Joint Offerors and the Joint Offeror Concert Parties	765,181,296	74.56

Notes:

- Brightex, through Araco, indirectly held 515,696,164 Shares as at the Latest Practicable Date, in which 300,000,000 Shares are charged by Araco in favour of AACL as security under the 2018 Facility Agreement. As at the Latest Practicable Date, Brightex is wholly-owned by Mr. Xuan.

2. Shares in which the Joint Offerors and the Joint Offeror Concert Parties are interested (except those held by the Ascendent Employee) will not form part of the Scheme Shares and will not be cancelled.

The Shares held by the Ascendent Employee were purchased before she became an employee of Ascendent Investment Consulting (Shanghai) Co., Ltd. (which is wholly-owned by Ascendent Capital Partners (Asia) Limited) and before the Relevant Period.

3. The percentages of the Shares are rounded to the nearest 2 decimal places, and the total number of the percentages may not add up to 100% due to rounding.
- (ii) As at the Latest Practicable Date, other than the Convertible Bonds held by AHCL, none of the Joint Offerors and Joint Offeror Concert Parties held any convertible securities, warrants, options or any derivatives in respect of any Shares.
- (iii) Save for the Exchange Right acquired by AACL, none of the Joint Offerors, the directors of the Joint Offerors nor any of the Joint Offeror Concert Parties had dealt for value in any Shares or convertible securities, warrants, options or derivatives in respect of any Shares during the Relevant Period.
- (iv) As at the Latest Practicable Date, no subsidiary of the Company, no pension fund of the Company or of any subsidiary of the Company and no person who is presumed to be acting in concert with the Company by virtue of class (5) of the definition of “acting in concert” under the Takeovers Code or who is an associate of the Company by virtue of class (2) of the definition of “associate” under the Takeovers Code (but excluding any exempt principal traders and exempt fund managers) owned or controlled any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares. During the period from the commencement of the Offer Period up to the Latest Practicable Date, no such person had dealt for value in any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares.
- (v) Save as disclosed in this section headed “4. *Disclosure of Interests in the Shares*” in Appendix III. of this Scheme Document and as at the Latest Practicable Date, no other person who had an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with any of the Joint Offerors (or with any person acting in concert with any of the Joint Offerors) owned or controlled any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares or dealt for value in any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares during the Relevant Period.
- (vi) As at Latest Practicable Date, no fund managers (other than exempt fund managers) connected with the Company managed any Shares or convertible securities, warrants, options or derivatives in respect of any Shares on a discretionary basis. During the period from the commencement of the Offer Period and up to the Latest Practicable Date, no such person had dealt for value in any Shares or convertible securities, warrants, options or derivatives in respect of any Shares.

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- (vii) As at the Latest Practicable Date, save for the Joint Offerors and any of the Joint Offeror Concert Parties (as the case may be) being parties to the Proposal, the Scheme, the Scheme Consortium Agreement, the Convertible Bonds, the 2018 Facility Agreement (as amended by the Amendment Agreement to the 2018 Facility Agreement), the AACL Undertaking, the AHCL Opt-out Undertaking, the Scheme Facility Agreement, the Pre-Delisting Shareholders' Agreement, the Shareholders' and Bondholders' Agreement and the Sale and Purchase Agreement, no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or with any person who is presumed to be acting in concert with the Company by virtue of classes (1), (2), (3) or (5) of the definition of "acting in concert" under the Takeovers Code or who is an associate of the Company by virtue of classes (2), (3) and (4) of the definition of "associate" under the Takeovers Code. During the period from the commencement of the Offer Period and up to the Latest Practicable Date, no such person had dealt for value in any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares.
- (viii) As at the Latest Practicable Date, save as disclosed below, none of the directors of the Joint Offerors or the Company is interested in any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares:

Name of director	Capacity/ Nature of interest	Number of the Shares (Note 1)	Approximate percentage interest in the Company
Mr. Xuan Rui Guo	Beneficial owner	1,000,000 (L)	0.10%
	Interest of controlled	515,696,164 (L)	50.25%
	corporation (Notes 2, 3)	300,000,000 (S)	29.23%
Mr. Meng Liang	Interest of controlled corporation (Notes 3, 4, 5)	1,183,186,259 (L)	115.29%

Notes:

- (1) The letters "L" and "S" denote the person's long position and short position respectively in the Shares or underlying shares (the "**Underlying Shares**") of the Company.
- (2) Araco is a wholly-owned subsidiary of Brightex which is in turn wholly-owned by Mr. Xuan. By virtue of the SFO, Brightex and Mr. Xuan are deemed to be interested in the Shares and/or Underlying Shares in which Araco is interested.
- (3) Pursuant to the 2018 Facility Agreement between Araco and AACL, AACL has the Exchange Right after the utilisation date of the loan under the 2018 Facility Agreement but on or before the final exchange date (i.e. 31 December 2023), and such Exchange Right may be exercised on one occasion. The Exchange Right will entitle AACL to require Araco to transfer 300,000,000 Shares held by Araco. Further details of the 2018 Facility Agreement and Exchange Right are set out in the announcement of the Company dated 17 December 2018.
- (4) AACL is a wholly-owned subsidiary of ACP Fund II. The general partner of ACP Fund II is Ascendent Capital Partners II GP, L.P., and its general partner is Ascendent Capital Partners II GP Limited. Ascendent Capital Partners II GP, L.P. and Ascendent Capital Partners II GP

APPENDIX III. GENERAL INFORMATION ON THE COMPANY AND THE JOINT OFFERORS

Limited are wholly-owned by Mr. Meng Liang. By virtue of the SFO, ACP Fund II, Ascendent Capital Partners II GP, L.P., Ascendent Capital Partners II GP Limited and Mr. Meng Liang are deemed to be interested in the Shares and/or Underlying Shares in which AACL is interested.

- (5) On 26 July 2017, the Company issued Convertible Bonds in the principal amount of RMB675,588,000 to AHCL, which, based on the initial conversion price of RMB1.0640 (equivalent to approximately HK\$1.21) per share, can be converted into 634,951,127 Shares. As at the Latest Practicable Date, AHCL has not exercised its conversion rights under the Convertible Bonds. AHCL is a wholly-owned subsidiary of ACP Fund I. The general partner of ACP Fund I is Ascendent Capital Partners I GP, L.P. and its general partner is Ascendent Capital Partners I GP Limited. Ascendent Capital Partners I GP, L.P. and Ascendent Capital Partners I GP Limited are wholly-owned by Mr. Meng Liang. By virtue of the SFO, ACP Fund I, Ascendent Capital Partners I GP, L.P., Ascendent Capital Partners I GP Limited and Mr. Meng Liang are deemed to be interested in the Shares and/or Underlying Shares in which AHCL is interested.

Other than the interests in the shareholding in the Company as disclosed above, Mr. Xuan and Mr. Meng Liang do not have control over any other voting rights attached to any Shares.

As Mr. Xuan is not a Scheme Shareholder, Mr. Xuan is not entitled to vote on the Scheme at the Court Meeting. The remaining Directors did not own any beneficial interests in the Shares as at the Latest Practicable Date.

- (ix) As at the Latest Practicable Date, neither the Joint Offerors nor any of the Joint Offeror Concert Parties had received any irrevocable commitment to vote for or against the Proposal.
- (x) As at the Latest Practicable Date, none of the Joint Offerors nor any of the Joint Offeror Concert Parties, the Company or the Directors had borrowed or lent any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares.
- (xi) During the Relevant Period, none of the Directors had dealt for value in any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares.
- (xii) Save as disclosed in this section headed “4. *Disclosure of Interests in the Shares*” in Appendix III. of this Scheme Document, the Joint Offerors did not own or control any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares.
- (xiii) Save as disclosed in this section headed “4. *Disclosure of Interests in the Shares*” in Appendix III. of this Scheme Document, none of the directors of the Joint Offerors nor any Joint Offeror Concert Party owned or controlled any Shares or convertible securities, warrants, options or derivatives in respect of the Shares.

(b) Interests and dealings in the Joint Offerors' shares

As at the Latest Practicable Date, the Company had no interest in each of the Joint Offerors' shares or convertible securities, warrants, options or derivatives in respect of such shares.

As at the Latest Practicable Date, save that Brightex is wholly-owned by Mr. Xuan, none of the Directors had any interests in each of the Joint Offerors' shares or convertible securities, warrants, options or derivatives in respect of the Joint Offerors' shares.

During the Relevant Period, none of the Directors nor the Company had dealt for value in any of the Joint Offerors' shares or convertible securities, warrants, options or derivatives in respect of any one of the Joint Offerors' shares.

(c) Arrangements with the Joint Offerors and their concert parties in respect of the Proposal

As at the Latest Practicable Date:

- (i) other than the Scheme Consortium Agreement, the Shareholders' and Bondholders' Agreement and the Sale and Purchase Agreement, there were no arrangements of the kind referred to in the third paragraph of Note 8 to Rule 22 of the Takeovers Code between either of the Joint Offerors or any person acting in concert with the Joint Offerors and any other person;
- (ii) there was no agreement or arrangement to which either of the Joint Offerors is a party which relates to the circumstances in which it may or may not invoke or seek to invoke a condition to the Proposal; and
- (iii) other than the financing and security arrangements contemplated under the Scheme Facility Agreement and the Sale and Purchase Agreement, in particular, (assuming the AACL Payment does not occur) the charge of the Shares equal to the number of Scheme Shares cancelled and to be issued to Brightex in favour of AACL as security and (assuming the AACL Payment does occur) the obligation of AACL to sell, and Mr. Xuan and Brightex to purchase the new Shares so issued to AACL as a result of the AACL Payment and the cancellation of the Scheme Shares, no securities in the Company acquired in pursuance of the Scheme will be transferred, charged, or pledged to any other persons, and there has been no agreement, arrangement or understanding with any third party to do so.

(d) Other interest

As at the Latest Practicable Date:

- (i) no benefit (other than statutory compensation required under applicable laws) will be given to any Director as compensation for loss of office or otherwise in connection with the Scheme;

- (ii) other than the Proposal, the Scheme Consortium Agreement, the Scheme Facility Agreement, the AACL Payment arrangement, the Amendment Agreement to the 2018 Facility Agreement and the Sale and Purchase Agreement, no agreement, arrangement or understanding (including any compensation arrangement) exists between the Joint Offerors or any Joint Offeror Concert Parties and any Directors, recent Directors, Shareholders or recent Shareholders, which has any connection with or dependence upon the Scheme;
- (iii) other than the Proposal, the Scheme Consortium Agreement, the Scheme Facility Agreement, the Sale and Purchase Agreement and the Shareholders' and Bondholders' Agreement, no agreement or arrangement exists between any Director and any other person, which is conditional on or dependent upon the outcome of the Scheme or otherwise in connection with the Scheme;
- (iv) save for the 2018 Facility Agreement, the Amendment Agreement to the 2018 Facility Agreement, the Scheme Consortium Agreement, the Scheme Facility Agreement, the Sale and Purchase Agreement, the Pre-Delisting Shareholders' Agreement and the Shareholders' and Bondholders' Agreement, there was no material contract entered into by the Joint Offerors in which any Director has a material personal interest; and
- (v) none of the Directors had any service contract with the Company or any of its subsidiaries or associated companies in force which (a) (including both continuous and fixed term contracts) had been entered into or amended within 6 months before the commencement of the Offer Period; or (b) is a continuous contract with a notice period of 12 months or more; or (c) is a fixed term contract with more than 12 months to run irrespective of the notice period.

5. MATERIAL LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration or claim of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened against the Company or any of its subsidiaries.

6. MATERIAL CONTRACTS

Save as disclosed below, neither the Company nor any of its subsidiaries has entered into any material contracts (not being contracts entered into in the ordinary course of business carried on or intended to be carried on by the Company or any of its subsidiaries) after the date which was two years before commencement of the Offer Period and up to and including the Latest Practicable Date:

- (a) the sale and purchase agreement dated 26 June 2017 entered into between Beijing Hengtong Fangda New Materials and Technology Company Limited* ("**Beijing Hengtong**") (a subsidiary of the Company) (as the vendor) and Beijing Hanrong Yisheng Technology Company Limited ("**Beijing Hanrong**") (as the purchaser) in relation to the disposal of the entire equity interest

* *The English transliterations of the Chinese name(s) is indicated for information purpose only, and should not be regarded as the official English name of such Chinese name.*

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of Beijing Liboyuan Investment Management Company Limited, for a consideration of RMB14,890,000, further details of which are set out in the announcement of the Company dated 26 June 2017;

- (b) the sale and purchase agreement dated 26 June 2017 entered into between Beijing Hengtong (as the vendor) and Beijing Hanrong (as the purchaser) in relation to the disposal of the entire equity interest of Beijing Consen Process Control Technology Company Limited, for a consideration of RMB64,810,000, further details of which are set out in the announcement of the Company dated 26 June 2017;
- (c) the capital contribution agreement dated 18 January 2018 entered into among Wuzhong Instrument Company Limited (“**Wuzhong**”), Beijing Consen Automation Control Company Limited (both subsidiaries of the Company) and Ningxia Industrial Guide Fund Management Limited (“**Ningxia Industrial**”), pursuant to which Ningxia Industrial agreed to make a capital contribution of RMB150,000,000 in cash to Wuzhong Instrument for an investment project, further details of which are set out in the announcement of the Company dated 25 January 2018;
- (d) the agreement dated 30 March 2017 (as amended by the supplemental agreement dated 23 June 2017) entered into between the Company (as the purchaser) and Ascendent Healthcare (Cayman) Limited (as the vendor) in relation to, among other things, the acquisition of 60% of the total issued share capital of the Etern Group Limited, of which the consideration was settled by way of issuance of the convertible bonds of the Company in the principal amount equal to approximately RMB675.6 million; further details of which are set out in the circular of the Company dated 23 June 2017;
- (e) the shareholders’ agreement dated 26 July 2017 entered into between the Company, Ascendent Healthcare (Cayman) Limited and Etern Group Limited to regulate the rights and obligations of the Company and Ascendent Healthcare (Cayman) Limited in relation to their investment in Etern Group Limited and its subsidiaries, further details of which are set out in the circular of the Company dated 23 June 2017; and
- (f) the Shareholders’ and Bondholders’ Agreement.

7. EXPERTS

The following are the qualifications of the experts who have given opinions or advice which are contained in this Scheme Document:

Name	Qualifications
Somerley	a licensed corporation permitted under SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities
Elstone	a corporation licensed to carry out Type 6 (advising on corporate finance) regulated activity under the SFO
D&P China (HK) Limited	an independent professional property valuer

8. CONSENTS

Each of the experts mentioned above has given and has not withdrawn its written consent to the issue of this Scheme Document with the inclusion therein of the opinions, reports and/or letters and/or the references to its name and/or opinions, reports and/or letters in the form and context in which they respectively appear.

9. MISCELLANEOUS

- (a) The Directors are:

Executive Directors

Mr. Xuan Rui Guo (*Chairman*)

Mr. Wang Chuensheng

Independent Non-Executive Directors

Mr. Wang Tai Wen

Mr. Ng Wing Fai

Mr. Zhang Xin Zhi

- (b) The Company Secretary of the Company is Mr. Chow Chiu Chi, a fellow member of the Hong Kong Institute of Certified Public Accountants.
- (c) The registered office of the Company is situated at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.
- (d) The principal place of business of the Company in Hong Kong is at Unit 3205B-3206, 32nd Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong.

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- (e) The principal place of business and head office of the Company in China is situated at No. 7, Anxiang Street, Area B, Tianzhu Airport Economic Development Zone, Shunyi District, Beijing, the PRC.
- (f) The Company's share registrar and transfer office in Hong Kong is Tricor Investor Services Limited situated at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (g) The sole director of Brightex is:

Mr. Xuan
- (h) The sole director of AACL is:

Mr. Meng Liang
- (i) The sole director of Araco is:

Mr. Xuan
- (j) The sole director of AHCL is:

Mr. Meng Liang
- (k) The registered office of Brightex is Morgan & Morgan Building, P.O. Box 958, Pasea Estate, Road Town, Tortola, British Virgin Islands. The correspondence address of Brightex in Hong Kong is Unit 3205B-3206, 32nd Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong.
- (l) The registered office of AACL is Walkers Corporate Limited, Cayman Corporate Centre, 27 Hospital Road, George Town, Grand Cayman KY1-9008, Cayman Islands. The correspondence address of AACL in Hong Kong is Suite 3501, 35F, Jardine House, One Connaught Place, Central, Hong Kong.
- (m) The registered office of Araco is Morgan & Morgan Building, Pasea Estate, Road Town, Tortola, British Virgin Islands. The correspondence address of Araco in Hong Kong is Unit 3205B-3206, 32nd Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong.
- (n) The registered office of AHCL is Intertrust Corporate Services (Cayman) Limited, 190 Elgin Avenue, George Town, Grand Cayman KY1-9005, Cayman Islands. The correspondence address of AHCL in Hong Kong is Suite 3501, 35F, Jardine House, One Connaught Place, Central, Hong Kong.
- (o) The correspondence address of Mr. Xuan is Unit 3205B-3206, 32nd Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong.

APPENDIX III. GENERAL INFORMATION ON THE COMPANY AND THE JOINT OFFERORS

- (p) The correspondence address of the Ascendent Employee is Flat 802, No. 16, 99 Jinhe Lu, Pule, Shanghai, the PRC**.
- (q) Brightex is a company incorporated in the British Virgin Islands on 20 January 2016 with limited liability.
- (r) AACL is a company incorporated in the Cayman Islands on 1 April 2016 with limited liability.
- (s) Araco is a company incorporated in the British Virgin Islands on 26 February 2016 with limited liability.
- (t) AHCL is a company incorporated in the Cayman Islands on 12 February 2014 with limited liability.
- (u) The principal place of business of Somerley in Hong Kong is at 20th Floor, China Building, 29 Queen's Road Central, Hong Kong and the registered office of Somerley is 20th Floor, China Building, 29 Queen's Road Central, Hong Kong.
- (v) The principal place of business of Elstone in Hong Kong is at Unit 1612, 16/F West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong and the registered office of Elstone is Unit 1612, 16/F West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection from the date of this Scheme Document until the Effective Date or the date on which the Scheme lapses or is withdrawn, whichever is earlier (i) during normal business hours from 9:00 a.m. to 5:30 p.m. (except Saturdays, Sundays and public holidays in Hong Kong) (Hong Kong time) at the principal place of business of the Company in Hong Kong at Unit 3205B-3206, 32nd Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong; (ii) on the website of the Company (www.cag.com.hk); and (iii) on the website of the SFC (www.sfc.hk):

- (a) the memorandum and articles of association of the Company;
- (b) the memorandum and articles of association of Brightex;
- (c) the memorandum and articles of association of AACL;
- (d) the annual reports of the Company for the years ended 31 December 2016, 31 December 2017 and 31 December 2018;
- (e) the interim reports of the Company for the six months ended 30 June 2018 and 30 June 2019;
- (f) the letter from the Board, the text of which is set out in Part IV. of this Scheme Document;

** *The English transliterations of the Chinese address is indicated for information purpose only, and should not be regarded as the official English address of such Chinese address.*

APPENDIX III. GENERAL INFORMATION ON THE COMPANY AND THE JOINT OFFERORS

- (g) the letter from the Independent Board Committee, the text of which is set out in Part V. of this Scheme Document;
- (h) the letter from the Independent Financial Adviser, the text of which is set out in Part VI. of this Scheme Document;
- (i) the letter, summary of property valuations and property valuation report from D&P China (HK) Limited, the text of which is set out in Appendix II. to this Scheme Documents;
- (j) the AAFL Undertaking;
- (k) the AHCL Opt-out Undertaking;
- (l) the Scheme Consortium Agreement;
- (m) the Pre-Delisting Shareholders' Agreement;
- (n) the Sale and Purchase Agreement;
- (o) the written consents referred to in the section headed "8. *Consents*" in "Appendix III. – General Information on the Company and the Joint Offerors" to this Scheme Document;
- (p) the material contracts referred to in the section headed "6. *Material Contracts*" in "Appendix III. – General Information on the Company and the Joint Offerors" to this Scheme Document;
and
- (q) this Scheme Document.

IN THE GRAND COURT OF THE CAYMAN ISLANDS

CAUSE NO: FSD 139 OF 2019 (RPJ)

**IN THE MATTER OF
CHINA AUTOMATION GROUP LIMITED 中國自動化集團有限公司
AND IN THE MATTER OF
SECTION 86 OF THE COMPANIES LAW (2018 REVISION)**

SCHEME OF ARRANGEMENT

between

CHINA AUTOMATION GROUP LIMITED 中國自動化集團有限公司

and

THE SCHEME SHAREHOLDERS

(as hereinafter defined)

PRELIMINARY

(A) In this Scheme, unless inconsistent with the subject or context, the following expressions shall have the meanings respectively set out opposite them:

“AACL”	Ascendent Automation (Cayman) Limited, a direct wholly-owned subsidiary of ACP Fund II
“AACL Payment”	has the meaning ascribed to it in the Scheme Document
“ACP Fund I”	Ascendent Capital Partners I, L.P., holding 100% equity interest in AHCL
“ACP Fund II”	Ascendent Capital Partners II, L.P., a Cayman Islands exempted limited partnership
“acting in concert”	has the meaning ascribed to it in the Takeovers Code and “concert party” shall be construed accordingly

“AHCL”	Ascendent Healthcare (Cayman) Ltd., an exempted company incorporated in the Cayman Islands with limited liability on 12 February 2014, wholly-owned by ACP Fund I and the holder of the Convertible Bonds
“Araco”	Araco Investment Limited, a company incorporated in the British Virgin Islands which is indirectly wholly-owned (through Brightex) by Mr. Xuan and is directly interested in 515,696,164 Shares (representing approximately 50.25% of the issued share capital of the Company) as at the Latest Practicable Date
“Brightex”	Brightex Enterprises Limited, a company incorporated in the British Virgin Islands which is directly wholly-owned by Mr. Xuan and the immediate holding company of Araco and indirectly, through Araco, owns 515,696,164 Shares as at the Latest Practicable Date
“Cancellation Price”	the cancellation price of HK\$1.50 per Scheme Share payable in cash by the Joint Offerors to the Scheme Shareholders pursuant to this Scheme
“Companies Law”	the Companies Law (2018 Revision) of the Cayman Islands
“Company”	China Automation Group Limited, an exempted company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange (Stock code: 00569)
“Conditions”	the conditions to the implementation of the Proposal and the Scheme as described in the section headed “3. <i>Conditions of the Proposal and the Scheme</i> ” under Part VII. – Explanatory Memorandum of the Scheme Document
“Convertible Bonds”	has the meaning ascribed to it in the Scheme Document
“Court Meeting”	the meeting(s) of the holders of Scheme Shares (or of the classes of such holders) to be convened at the direction of the Grand Court or any adjournment thereof, at which this Scheme (with or without modification) will be voted upon
“Effective Date”	the date on which this Scheme becomes effective in accordance with the Companies Law
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any delegate thereof

“Grand Court”	the Grand Court of the Cayman Islands
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Joint Offeror Concert Parties”	parties acting in concert or presumed to be acting in concert with the Joint Offerors under the definition of “acting in concert” under the Takeovers Code, including Araco, Mr. Xuan, AHCL and the Ascendent Employee (but excluding the Joint Offerors and the Group)
“Joint Offerors”	Brightex and AACL
“Latest Practicable Date”	Wednesday, 28 August 2019, being the latest practicable date for ascertaining certain information contained in the Scheme Document
“Long Stop Date”	31 October 2019 or such date as may be agreed by the Joint Offerors and the Company, or to the extent applicable, as the Grand Court may direct and, in all cases, as permitted by the Executive
“Mr. Xuan”	Mr. Xuan Rui Guo, the chairman of the Board and an executive Director
“PRC”	the People’s Republic of China (for the purpose of the Scheme Document, excluding Hong Kong, the Macao Special Administrative Region and Taiwan)
“Proposal”	the proposal for the privatisation of the Company by the Joint Offerors by way of this Scheme, and the withdrawal of the listing of the Shares from the Stock Exchange, on the terms and subject to the conditions set out in the Scheme Document
“Record Date”	Thursday, 24 October 2019, or such other date as shall have been announced to the Shareholders, being the record date for the purpose of determining the entitlements of the Scheme Shareholders to the Cancellation Price under this Scheme
“Register”	the register of members of the Company

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|-------------------------|--|
| “Scheme” | a scheme of arrangement under Section 86 of the Companies Law involving, among other matters, the cancellation of all of the Scheme Shares and the restoration of the issued share capital of the Company to the amount immediately before the cancellation of the Scheme Shares |
| “Scheme Document” | the composite scheme document dated 31 August 2019 issued jointly by the Joint Offerors and the Company to the Shareholders, containing among other things, each of the letters, statements, appendices and notices in it |
| “Scheme Share(s)” | Share(s) (other than those directly or indirectly held by the Joint Offerors and the Joint Offeror Concert Parties (excluding those held by the Ascendent Employee)) |
| “Scheme Shareholder(s)” | registered holder(s) of the Scheme Shares as at the Record Date |
| “SFC” | the Securities and Futures Commission of Hong Kong |
| “Share(s)” | ordinary share(s) of par value HK\$0.01 each in the share capital of the Company |
| “Shareholder(s)” | registered holder(s) of the Share(s) |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “Takeovers Code” | the Hong Kong Code on Takeovers and Mergers issued by the SFC |
- (B) The Company was incorporated in the Cayman Islands on 25 July 2006 under the provisions of the Companies Law as an exempted company with limited liability.
- (C) As at the Latest Practicable Date, the authorised share capital of the Company was HK\$30,000,000 divided into 3,000,000,000 Shares, and the Company had 1,026,263,729 Shares in issue. Since 12 July 2007, the issued shares of the Company have been listed and traded on the Main Board of the Stock Exchange.
- (D) The Joint Offerors have proposed the privatisation of the Company by way of this Scheme.
- (E) The primary purpose of this Scheme is to privatise the Company by the cancellation of the Scheme Shares in consideration of the Cancellation Price so that thereafter the Joint Offerors and Joint Offeror Concert Parties (excluding the Ascendent Employee) will own the Company. Simultaneously with the cancellation of the Scheme Shares, the issued share capital of the Company will be restored

to its former amount by the issue to Brightex (if the ACL Payment does not occur) or to ACL (if the ACL Payment occurs) at par credited as fully paid such number of Shares as is equal to the number of Scheme Shares cancelled and extinguished.

- (F) As at the Latest Practicable Date, 765,181,296 Shares were legally owned or controlled by the Joint Offerors, the Joint Offeror Concert Parties and registered as follows:

Name	Registered holder of Shares	Number of Shares
Araco <i>(Note 1)</i>	HKSCC Nominees Limited	311,297,409
	Araco	204,398,755
ACL	HKSCC Nominees Limited	248,235,132
Mr. Xuan	HKSCC Nominees Limited	1,000,000
Ascendent Employee	HKSCC Nominees Limited	250,000
AHCL	N/A	0

Note:

1. As at the Latest Practicable Date, Araco is wholly-owned by Brightex which is wholly-owned by Mr. Xuan.

- (G) Each of the Joint Offeror Concert Parties, being presumed to be acting in concert or in fact acting in concert with the Joint Offerors under the Takeovers Code, will procure that any Shares in respect of which they are legally or beneficially interested will not be represented or voted at the meeting convened at the direction of the Grand Court for the purpose of considering and, if thought fit, approving this Scheme.
- (H) The Joint Offerors have undertaken to the Grand Court to be bound by this Scheme, and will execute and do and procure to be executed and done all such documents, acts and things as may be necessary or desirable to be executed or done by each of them for the purpose of giving effect to this Scheme.

THE SCHEME

PART I

Cancellation of the Scheme Shares

1. On the Effective Date:
- (a) the issued share capital of the Company shall be reduced by cancelling and extinguishing the Scheme Shares and the Scheme Shareholders shall cease to have any rights with respect to the Scheme Shares except the right to receive the Cancellation Price.

- (b) subject to and forthwith upon such reduction of capital taking effect, the issued share capital of the Company will be increased to its former amount by issuing to Brightex (in the event the AACL Payment does not occur) or AACL (in the event the AACL Payment occurs) the same number of new Shares as is equal to the number of Scheme Shares cancelled and extinguished; and
- (c) the Company shall apply the credit arising in its books of account as a result of the capital reduction referred to in paragraph 1(a) above in paying up in full at par such number of new Shares as is equal to the number of Scheme Shares cancelled, which shall be allotted and issued to Brightex or AACL (as the case may be), credited as fully paid as mentioned in paragraph 1(b) above.

PART II

Consideration for the cancellation and extinguishment of the Scheme Shares

- 2. In consideration of the cancellation and extinguishment of the Scheme Shares, the Joint Offerors shall pay or cause to be paid to each Scheme Shareholder the Cancellation Price.

PART III

General

- 3. (a) As soon as possible and not later than seven (7) business days (as defined under the Takeovers Code) after the Effective Date, the Joint Offerors shall send or cause to be sent to Scheme Shareholders cheques in respect of the Cancellation Price payable to such Scheme Shareholders pursuant to Clause 2 of this Scheme.
- (b) Unless otherwise indicated in writing to the branch share registrar of the Company in Hong Kong, being Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, all such cheques shall be sent by ordinary post in postage pre-paid envelopes addressed to such Scheme Shareholders at their respective addresses as appearing on the Register on the Record Date or, in the case of joint holders, at the address as appearing on the Register on the Record Date of the joint holder whose name then stands first in the Register in respect of the relevant joint holding.
- (c) Cheques shall be posted at the risk of the addressees and none of the Joint Offerors, the Company, Somerley or Elstone or the Share Registrar shall be responsible for any loss or delay in the dispatch of the same.
- (d) Each cheque shall be payable to the order of the person to whom, in accordance with the provisions of paragraph (b) of this Clause 3, the envelope containing the same is addressed and the encashment of any such cheque shall be a good discharge to the Joint Offerors for the monies represented thereby.

- (e) On or after the day being six calendar months after the posting of the cheques pursuant to paragraphs (b) of this Clause 3, the relevant Joint Offeror which issues those cheques shall have the right to cancel or countermand any cheque which has not been cashed or that has been returned uncashed and shall place all monies represented thereby in a deposit or custodian account in such Joint Offeror's name with a licensed bank in Hong Kong selected by such Joint Offeror. Such Joint Offeror shall hold such monies on trust for those entitled to it under the terms of this Scheme until the expiration of six years from the Effective Date and shall, prior to such date, make payments therefrom of the sums payable pursuant to Clause 2 of this Scheme to persons who satisfy such Joint Offeror that they are respectively entitled thereto and the cheques referred to in paragraphs (b) of this Clause 3 of which they are payees have not been cashed. Any payments made by such Joint Offeror shall not include any interest accrued on the sums to which the respective persons are entitled pursuant to this Scheme. Such Joint Offeror shall exercise its absolute discretion in determining whether or not it is satisfied that any person is so entitled and a certificate of such Joint Offeror to the effect that any particular person is so entitled or not so entitled, as the case may be, shall be conclusive and binding upon all persons claiming an interest in the relevant monies.
 - (f) On the expiration of six years from the Effective Date, such Joint Offeror shall be released from any further obligation to make any payments under this Scheme and such Joint Offeror shall be absolutely entitled to the balance (if any) of the sums then standing to the credit of the deposit or custodian account in its name, including accrued interest subject to any deduction required by law and expenses incurred.
 - (g) Paragraph (f) of this Clause 3 shall take effect subject to any prohibition or condition imposed by law.
- 4. Each instrument of transfer and certificate existing on the Record Date in respect of a holding of any number of Scheme Shares shall on the Effective Date cease to be valid for any purpose as an instrument of transfer or a certificate for such Scheme Shares and every holder of such certificate shall be bound at the request of the Joint Offerors to deliver up the same to the Joint Offerors for the cancellation thereof.
 - 5. All mandates or relevant instructions to the Company in force on the Record Date relating to any of the Scheme Shares shall cease to be valid as effective mandates or instructions on the Effective Date.
 - 6. Subject to the Conditions having been satisfied in full or waived by the Joint Offerors in the manner set out under the heading "*3. Conditions of the Proposal and the Scheme*" under Part VII. – Explanatory Memorandum in the Scheme Document, this Scheme shall become effective as soon as a copy of the order of the Grand Court sanctioning this Scheme under Section 86 of the Companies Law has been registered by the Registrar of Companies in the Cayman Islands pursuant to section 86 (3) of the Companies Law.
 - 7. Unless this Scheme shall have become effective on or before the Long Stop Date, this Scheme shall lapse.

8. The Company and the Joint Offerors may consent jointly for and on behalf of all concerned to any modification of or addition to this Scheme or to any condition which the Grand Court may think fit to approve or impose.
9. All costs, charges and expenses of the advisers and counsels appointed by the Company will be borne by the Company whereas all costs, charges and expenses of the advisers and counsels appointed by Joint Offerors will be borne by the Joint Offerors in accordance with the terms of the Scheme Consortium Agreement, and other costs, charges and expenses of the Scheme of Arrangement will be shared between the Joint Offerors and the Company equally.

31 August 2019

**IN THE GRAND COURT OF THE CAYMAN ISLANDS
FINANCIAL SERVICES DIVISION
CAUSE NO. FSD 139 OF 2019 (RPJ)**

**IN THE MATTER OF SECTIONS
15 AND 86 OF THE COMPANIES LAW (2018 REVISION)
AND IN THE MATTER OF ORDER 102 OF
THE GRAND COURT RULES 1995 AND IN THE MATTER OF
CHINA AUTOMATION GROUP LIMITED 中國自動化集團有限公司**

NOTICE OF COURT MEETING

NOTICE IS HEREBY GIVEN that, by an order dated 28 August 2019 (the “**Order**”) made in the above matter, the Grand Court of the Cayman Islands (the “**Court**”) has directed a meeting (the “**Court Meeting**”) to be convened of holders of ordinary shares of par value HK\$0.01 each in the capital of China Automation Group Limited 中國自動化集團有限公司 (the “**Company**”) other than the Joint Offerors and the Joint Offeror Concert Parties (excluding the Ascendent Employee), all of which are defined in the composite scheme document, of which this Notice forms part (the “**Holders**”), for the purpose of considering and, if thought fit, approving, with or without modifications, a scheme of arrangement (the “**Scheme**”) proposed to be made between the Company and the Scheme Shareholders (as defined in the Scheme) and that the Court Meeting will be held at Regus Hong Kong Central Plaza, 35th Floor, Central Plaza, 18 Harbour Road, Wan Chai, Hong Kong on Monday, 23 September 2019 at 10:00 a.m. (Hong Kong time) *(see Note)* at which place and time all such Holders are requested to attend. A copy of the Scheme and a copy of an explanatory memorandum explaining the effect of the Scheme are incorporated in the composite scheme document of which this Notice forms part.

A copy of the composite scheme document can also be obtained by the Holders from the Hong Kong share registrar of the Company, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong.

Such Holders (other than the Ascendent Employee) may vote in person at the Court Meeting or they may appoint one or more other persons (who each must be an individual), whether a member of the Company or not, to attend and vote in their stead. A **pink** form of proxy for use at the Court Meeting is enclosed with the composite scheme document dated 31 August 2019 dispatched to members of the Company on 31 August 2019.

In the case of joint holders of a share, any one of such persons may vote at the Court Meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto. However, if more than one of such joint holders be present at the Court Meeting personally or by proxy, that one of the said persons so present being the most or, as the case may be, the more senior shall alone be entitled to vote in

respect of the relevant joint holding. For this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand on the register of members of the Company in respect of such joint holding, the first named shareholder being the senior.

It is requested that forms appointing proxies be deposited at the Hong Kong share registrar of the Company at Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong (the "**Registration Office**"), not later than 10:00 a.m. (Hong Kong time) on Saturday, 21 September 2019. Completion and return of the proxy form will not preclude any member from attending and voting in person at the Court Meeting. In the event that a member of the Company attends the meeting after having lodged his form of proxy, the form of proxy will be deemed to have been revoked. If you complete and deliver the form of proxy, but do not attend and vote in person at the Court Meeting, a vote given in accordance with the terms of an instrument of proxy shall be valid notwithstanding the previous death or insanity of the principal, or revocation of the instrument of proxy or of the authority under which it was executed, provided that no intimation in writing of such death, insanity or revocation shall have been received by the Company at the Registration Office at least two (2) hours before the commencement of the Court Meeting or any adjourned meeting at which the proxy is used.

By the Order, the Court has appointed Mr. Wang Tai Wen, an independent non-executive director of the Company, or failing him, Mr. Ng Wing Fai, an independent non-executive director of the Company, or failing him, Mr. Zhang Xin Zhi, also an independent non-executive director of the Company, or failing him, any other director of the Company, to act as the Chairman of the Court Meeting and has directed the chairman of the Court Meeting to report the results of the Court Meeting to the Court.

The Scheme will be subject to a subsequent application seeking the sanction of the Court.

By Order of the Court
China Automation Group Limited
中國自動化集團有限公司

Note:

In the event that a tropical cyclone warning signal no. 8 or above is hoisted or a black rainstorm warning signal is in force at 8:00 a.m. on Monday, 23 September 2019, the Court Meeting will be adjourned to Wednesday, 25 September 2019 at 10:00 a.m. or at a time on an alternative day to be announced that falls within fourteen days of the original date scheduled for the Court Meeting. You may call the hotline at +852 2598 0050 during business hours from 9:00 a.m. to 5:00 p.m. on Monday to Friday, excluding public holidays or visit the website of the Company at www.cag.com.hk for details of alternative meeting arrangements. The Court Meeting will be held as scheduled even when a tropical cyclone warning signal no. 3 or below is hoisted or an amber or red rainstorm warning signal is in force.

You should make your own decision as to whether you would attend the Court Meeting under bad weather conditions bearing in mind your own situation and if you should choose to do so, you are advised to exercise care and caution.

Dated 31 August 2019

Registered Office

Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Principal Place of Business in Hong Kong

Unit 3205B-3206
32nd Floor, Office Tower
Convention Plaza
1 Harbour Road
Wanchai, Hong Kong



中國自動化集團有限公司

China Automation Group Limited

(HK stock code 0569)

(Incorporated in the Cayman Islands with limited liability)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “EGM”) of China Automation Group Limited 中國自動化集團有限公司 (the “Company”) will be held at Regus Hong Kong Central Plaza, 35th Floor, Central Plaza, 18 Harbour Road, Wan Chai, Hong Kong, Monday, 23 September 2019 at 10:30 a.m. (Hong Kong time) (or immediately after the conclusion or adjournment of the meeting of the holders of Scheme Shares (as defined in the Scheme hereinafter mentioned) convened at the direction of the Grand Court of the Cayman Islands for the same day and place), for the purpose of considering and, if thought fit, passing (with or without modifications) the following special resolution:

SPECIAL RESOLUTION

“THAT AS A SPECIAL RESOLUTION:

- (A) the scheme of arrangement dated 31 August 2019 (the “Scheme”) between the Company and the Scheme Shareholders (as defined in the Scheme) in the form of the print thereof which has been produced to this EGM and, for the purpose of identification, signed by the chairman of this meeting, subject to any modifications, additions or conditions as may be approved or imposed by the Grand Court of the Cayman Islands, be and is hereby approved; and
- (B) for the purpose of giving effect to the Scheme, on the Effective Date, (as defined in the Scheme):
 - (i) the issued share capital of the Company be reduced by cancelling and extinguishing the Scheme Shares (the “Capital Reduction”);
 - (ii) subject to and forthwith upon the Capital Reduction taking effect, the issued share capital of the Company be increased to its former amount by issuing to Brightex Enterprises Limited (“Brightex”) (in the event the AACL Payment (as defined in the Scheme) does not occur) or Ascendent Automation (Cayman) Limited (“AACL”) (in the event the AACL Payment (as defined in the Scheme) occurs) the same number of new shares of par value HK\$0.01 each in the share capital of the Company as is equal to the number of Scheme Shares cancelled and extinguished as aforesaid;
 - (iii) the Company shall apply the credit arising in its books of account as a result of the Capital Reduction in paying up in full at par the new shares of par value HK\$0.01 each in the share capital of the Company issued as aforesaid, credited as fully paid, to Brightex or AACL (as the case may be) and the directors of the Company be and are hereby authorised to allot and issue the same accordingly;

- (iv) any one of the directors of the Company be and is hereby authorised to do all acts and things considered by him to be necessary or desirable for or in connection with the implementation of the Scheme pursuant to the Scheme, including (without limitation) (i) the Capital Reduction; (ii) the allotment and issue of the new shares of the Company as aforesaid; and (iii) the giving of consent to any modification of, or addition to, the Scheme, which the Grand Court of the Cayman Islands may see fit to impose; and

- (v) any one of the directors of the Company be and is hereby authorised to apply to The Stock Exchange of Hong Kong Limited for the withdrawal of the listing of the shares of the Company.”

By Order of the Board
China Automation Group Limited
中國自動化集團有限公司

Dated 31 August 2019

Registered Office

Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Principal Place of Business in Hong Kong

Unit 3205B-3206
32nd Floor, Office Tower
Convention Plaza
1 Harbour Road
Wanchai, Hong Kong

Notes:

- (a) Any member entitled to attend and vote at the EGM (or any adjournment thereof) and is the holder of two or more Shares is entitled to appoint one or more proxies (who must be individual(s)) to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company.

- (b) In the case of joint registered holders of any share of the Company, any one of such joint registered holders may vote at the EGM, either personally or by proxy, in respect of such share(s) as if he were solely entitled thereto; but if more than one of such joint holders are present at the EGM personally or by proxy, the most senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority will be determined by reference to the order in which the names of the joint holders stand on the register of members of the Company in respect of the relevant joint holding.

- (c) In order to be valid, the proxy form together with any power of attorney or other authority (if any) under which it is signed or a certified copy of such power or authority, must be completed and deposited with the Hong Kong share registrar of the Company at Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong (the "**Registration Office**"), not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the proxy form will not preclude any member from attending and voting in person at the EGM. In the event that a member of the Company attends the EGM after having lodged his form of proxy, the form of proxy will be deemed to have been revoked. If you complete and deliver the form of proxy, but do not attend and vote in person at the EGM, a vote given in accordance with the terms of an instrument of proxy shall be valid notwithstanding the previous death or insanity of the principal, or revocation of the instrument of proxy or of the authority under which it was executed, provided that no intimation in writing of such death, insanity or revocation shall have been received by the Company at the Registration Office at least two (2) hours before the commencement of the EGM or any adjourned meeting, or the taking of the poll, at which the proxy is used.
- (d) A form of proxy for use at the EGM is enclosed.
- (e) As required under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Takeovers Code (as defined in the Scheme), all resolutions as set out above will be voted by way of a poll.
- (f) The transfer books and register of members of the Company will be closed from Wednesday, 18 September 2019 to Monday, 23 September 2019, both days inclusive, to determine the entitlement of shareholders to attend and vote at the EGM, during which period no transfers of shares will be registered. All transfers accompanied by the relevant share certificates must be lodged with the Hong Kong share registrar of the Company, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Tuesday, 17 September 2019.
- (g) In the event that a tropical cyclone warning signal no. 8 or above is hoisted or a black rainstorm warning signal is in force at 8:00 a.m. on Monday, 23 September 2019, the EGM will be adjourned to Wednesday, 25 September 2019 at 10:30 a.m. (or immediately after the Court Meeting shall have been concluded or adjourned) or at a time on an alternative day to be announced that falls within fourteen days of the original date scheduled for the EGM. You may call the hotline at +852 2598 0050 during business hours from 9:00 a.m. to 5:00 p.m. on Monday to Friday, excluding public holidays or visit the website of the Company at www.cag.com.hk for details of alternative meeting arrangements. The EGM will be held as scheduled even when a tropical cyclone warning signal no. 3 or below is hoisted or an amber or red rainstorm warning signal is in force.
- You should make your own decision as to whether you would attend the EGM under bad weather conditions bearing in mind your own situation and if you should choose to do so, you are advised to exercise care and caution.
- (h) At the date of this notice, the executive directors of the Company are Mr. Xuan Rui Guo and Mr. Wang Chuensheng and the independent non-executive directors of the Company are Mr. Wang Tai Wen, Mr. Zhang Xin Zhi and Mr. Ng Wing Fai.