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## THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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If you are in any doubt as to any aspect of this Scheme Document or as to the action to be taken, you should consult your licensed securities dealer or other registered securities institution, bank manager, solicitor, professional accountant or other professional adviser. If you have sold or transferred all your shares in the Company, 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 securities institution or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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### **C.P. Holding (BVI) Investment Company Limited**

*(Incorporated in the British Virgin  
Islands with limited liability)*

### **C.P. Lotus Corporation**

**卜蜂蓮花有限公司**

*(Incorporated in the Cayman Islands  
with limited liability)*  
**(Stock Code: 00121)**

## **(1) PROPOSED PRIVATISATION OF C.P. LOTUS CORPORATION BY C.P. HOLDING (BVI) INVESTMENT COMPANY LIMITED BY WAY OF TWO SCHEMES OF ARRANGEMENT (BOTH UNDER SECTION 86 OF THE COMPANIES LAW OF THE CAYMAN ISLANDS) AND (2) PROPOSED WITHDRAWAL OF LISTING**

*Financial Adviser to the Offeror*



*Independent Financial Adviser to the Independent Board Committee*



This Scheme Document is being issued jointly by the Offeror and the Company. The actions to be taken by the Ordinary Shareholders and the CPS Holders are set out in Part II of this Scheme Document. Notices convening the Ordinary Share Court Meeting to be held at 9:30 a.m. on Friday, 4 October 2019, and the Ordinary Share EGM to be held at 10:30 a.m. on Friday, 4 October 2019 (or as soon as after the Ordinary Share Court Meeting has been concluded or adjourned) are set out in Appendix IV and Appendix V to this Scheme Document respectively. Notices convening the CPS Court Meeting to be held at 11:30 a.m. on Friday, 4 October 2019, and the CPS EGM to be held at 12:30 p.m. on Friday, 4 October 2019 (or as soon as after the CPS Court Meeting has been concluded or adjourned) are set out in Appendix VII and Appendix VIII to this Scheme Document respectively. Whether or not you are able to attend the relevant Court Meeting and/or the relevant EGM or any adjournment thereof, you are strongly urged to complete and sign the enclosed relevant form of proxy in respect of the relevant Court Meeting and the enclosed relevant form of proxy in respect of the relevant EGM, in accordance with the instructions printed thereon, and return them to the Company's branch share registrar and transfer office in Hong Kong, Tricor Progressive 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 in the relevant form of proxy or Part II of this Scheme Document. If the relevant forms of proxy in respect of the relevant Court Meeting are not so lodged, they may also be handed to the Chairman of the Court Meeting at the relevant Court Meetings (who shall have absolute discretion whether or not to accept it).

Unless the context requires otherwise, capitalized terms used in this Scheme Document take the meanings ascribed to them in Part I of this Scheme Document under the section headed "Definitions". This Scheme Document comprises also (1) a letter from the Board regarding the Proposal as set out in Part IV of this Scheme Document; (2) a letter from the Independent Board Committee, containing its advice to the Independent Ordinary Shareholders and the Independent CPS Holders regarding the Proposal, as set out in Part V of this Scheme Document; (3) a letter from Able Capital Partners Limited, the Independent Financial Adviser to the Independent Board Committee, containing its advice to the Independent Board Committee regarding the Proposal, as set out in Part VI of this Scheme Document; and (4) an Explanatory Statement regarding the Ordinary Share Scheme and the CPS Scheme as set out in Part VII of this Scheme Document. The English language text of this Scheme Document shall prevail over the Chinese text for the purpose of interpretation.

11 September 2019

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## CONTENTS

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### NOTICE TO US INVESTORS

*The Proposal is being made to cancel the securities of a Cayman Islands company by means of two schemes of arrangement provided for under the Companies Law. The financial information included in this Scheme Document (if any) has been prepared in accordance with Hong Kong 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 requirements of the US tender offer rules.*

*The receipt of cash pursuant to the Proposal by a US holder of Scheme Ordinary Shares or Scheme CPS as consideration for the cancellation of its Scheme Ordinary Shares or Scheme CPS (as the case may be) pursuant to the Ordinary Share Scheme or the CPS Scheme (as the case may be) 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 Ordinary Shares or Scheme CPS is urged to consult his independent professional adviser immediately regarding the tax consequences of the Proposal applicable to him/her.*

*It may be difficult for US holders of Scheme Ordinary Shares or Scheme CPS to enforce their rights and claims arising out of the US federal securities laws, since the Offeror 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 Ordinary Shares or Scheme CPS 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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## CONTENTS

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	<i>Page</i>
<b>PART I — DEFINITIONS</b> .....	1
<b>PART II — ACTIONS TO BE TAKEN</b> .....	9
<b>PART III — EXPECTED TIMETABLE</b> .....	12
<b>PART IV — LETTER FROM THE BOARD</b> .....	16
<b>PART V — LETTER FROM THE INDEPENDENT BOARD COMMITTEE</b> .....	41
<b>PART VI — LETTER FROM THE INDEPENDENT FINANCIAL ADVISER</b> .....	44
<b>PART VII — EXPLANATORY STATEMENT</b> .....	74
<b>APPENDIX I — FINANCIAL INFORMATION OF THE GROUP</b> .....	I-1
<b>APPENDIX II — GENERAL INFORMATION OF THE GROUP AND THE OFFEROR</b> .	II-1
<b>APPENDIX III — ORDINARY SHARE SCHEME OF ARRANGEMENT</b> .....	III-1
<b>APPENDIX IV — NOTICE OF ORDINARY SHARE COURT MEETING</b> .....	IV-1
<b>APPENDIX V — NOTICE OF ORDINARY SHARE EGM</b> .....	V-1
<b>APPENDIX VI — CPS SCHEME OF ARRANGEMENT</b> .....	VI-1
<b>APPENDIX VII — NOTICE OF CPS COURT MEETING</b> .....	VII-1
<b>APPENDIX VIII — NOTICE OF CPS EGM</b> .....	VIII-1

*In this Scheme Document, unless the context otherwise requires, the following expressions have the following meanings:*

“acting in concert”	has the meaning ascribed to it in the Takeovers Code
“Announcement”	the joint announcement dated 18 June 2019 jointly issued by the Offeror and the Company in relation to the Proposal
“Announcement Date”	18 June 2019, being the date of the Announcement
“associates”	has the meaning ascribed to it in the Takeovers Code
“Beneficial Owner”	any beneficial owner of relevant Shares
“Board”	the board of Directors
“Business Day”	a day on which the Stock Exchange is open for the transaction of business
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Participant”	a person admitted to participate in CCASS as a participant
“Charoen Pokphand Group”	Charoen Pokphand Group Company Limited, a company organised and existing under the laws of the Kingdom of Thailand
“Company”	C.P. Lotus Corporation 卜蜂蓮花有限公司, a company incorporated in the Cayman Islands with limited liability, the Ordinary Shares of which are currently listed on the Main Board of the Stock Exchange (stock code: 00121)
“Companies Law” or “Cayman Islands Companies Law”	the Companies Law Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
“Convertible Preference Shares”	the Series A Convertible Preference Shares, the Series B Convertible Preference Shares, the CPS and/or the Series D Convertible Preference Shares (as the case may be) or any of them
“Court Meetings”	the Ordinary Share Court Meeting and the CPS Court Meeting (each, a “ <b>Court Meeting</b> ”)

“CPS”	the unlisted, non-voting (save and except for resolution for the winding-up of the Company or resolution if passed would vary or abrogate the rights and privileges of the CPS Holders) series C convertible preference shares of HK\$0.02 par value each in the share capital of the Company, which are currently convertible into Ordinary Shares at a conversion ratio of 1 to 1 (subject to adjustment) and the conversion is subject to the minimum public float requirement under the Listing Rules
“CPS Cancellation Price”	the cancellation price of HK\$0.11 per Scheme CPS payable in cash by the Offeror to the Scheme CPS Holders pursuant to the CPS Scheme for every Scheme CPS cancelled
“CPS Court Meeting”	a meeting of the Independent CPS Holders convened at the direction of the Grand Court at which the CPS Scheme will be voted upon
“CPS EGM”	an extraordinary general meeting to be held by the Company for the CPS Holders to consider and, if thought fit, approve, among others, (i) a special resolution in relation to the reduction of the number of issued CPS in the share capital of the Company by cancelling and extinguishing the Scheme CPS; and (ii) an ordinary resolution in relation to the restoration of the number of issued CPS in the share capital of the Company to its former amount by the issue of the same number of CPS as the number of the Scheme CPS cancelled, credited as fully paid, to the Offeror
“CPS Holder(s)”	holder(s) of the CPS
“CPS Scheme”	a scheme of arrangement between the Company and the Scheme CPS Holders under Section 86 of the Companies Law (subject to the CPS Scheme Conditions) involving the cancellation and reduction of the Scheme CPS and the restoration of the number of issued CPS in the share capital of the Company to the amount immediately before the cancellation and reduction of the Scheme CPS
“CPS Scheme Conditions”	the conditions to the implementation of the CPS Scheme as set out in the section headed “CPS Scheme Conditions” in Part IV and Part VII of this Scheme Document
“CPS Scheme Court Meeting Record Date”	Friday, 4 October 2019 or such other date as may be announced to, among others, the Independent CPS Holders, being the record date for the purpose of determining the entitlement of the Independent CPS Holders to attend and vote at the CPS Court Meeting
“Director(s)”	the director(s) of the Company

“Effective Date”	the date on which the Ordinary Share Scheme and/or the CPS Scheme, if approved and sanctioned by the Cayman Islands Grand Court, becomes effective in accordance with its terms and the Cayman Islands Companies Law, being the date on which a copy of the order of the Cayman Islands Grand Court sanctioning the Ordinary Share Scheme and/or the CPS Scheme and confirming the reduction of issued share capital resulting from the cancellation of the Scheme Ordinary Shares and/or the Scheme CPS is delivered to the Registrar of Companies in the Cayman Islands for registration pursuant to Section 86(3) of the Cayman Islands Companies Law, and which is expected to be Thursday, 24 October 2019 (Cayman Islands time)
“EGMs”	the Ordinary Share EGM and the CPS EGM (each, an “EGM”)
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any delegate thereof
“Grand Court” or “Cayman Islands Grand Court”	the Grand Court of the Cayman Islands
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollar(s), 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 Ordinary Shareholders and the Independent CPS Holders, in respect of, among others, the Proposal, the Ordinary Share Scheme and the CPS Scheme, respectively
“Independent CPS Holders”	the CPS Holders other than the Offeror
“Independent Financial Adviser”	Able Capital Partners Limited, a licensed corporation under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities as defined thereunder and the Independent Financial Adviser appointed to advise the Independent Board Committee in connection with the Proposal, the Ordinary Share Scheme and the CPS Scheme
“Independent Ordinary Shareholders”	the Ordinary Shareholders other than the Offeror and the Offeror Concert Parties

“Investor Participant”	a person admitted to participate in CCASS as an investor participant
“Last Trading Day”	18 June 2019, being the last trading day on which the Ordinary Shares were traded on the Stock Exchange prior to the publication of the Announcement
“Latest Practicable Date”	6 September 2019, being the latest practicable date for the purposes of ascertaining certain information for inclusion in this Scheme Document
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	17 March 2020, being the last day of nine months from the Announcement Date, or such later date as may be agreed between the Offeror and the Company or, to the extent applicable, as the Executive may consent and/or the Grand Court may direct
“Meeting Record Date”	Friday, 4 October 2019, or such other date as may be announced to the Shareholders, being the Ordinary Share Scheme Court Meeting Record Date, the CPS Scheme Court Meeting Record Date and the record date for the purpose of determining the entitlement of the Ordinary Shareholders and/or CPS Holders to attend and vote at the Ordinary Share EGM and/or the CPS EGM
“Offer Period”	the period commencing on the Announcement Date and as defined in the Takeovers Code
“Offeror” or “C.P. Holding (BVI)”	C.P. Holding (BVI) Investment Company Limited, which is an indirect wholly-owned subsidiary of the Charoen Pokphand Group
“Offeror Concert Parties”	parties acting in concert or presumed to be acting in concert with the Offeror under the definition of “acting in concert” under the Takeovers Code, being the Principal Offeror Concert Party and the Other Offeror Concert Parties
“Ordinary Share(s)”	ordinary share(s) of HK\$0.02 par value each in the share capital of the Company
“Ordinary Share Cancellation Price”	the cancellation price of HK\$0.11 per Scheme Ordinary Share payable in cash by the Offeror to the Scheme Ordinary Shareholders pursuant to the Ordinary Share Scheme for every Scheme Ordinary Share cancelled

“Ordinary Share Court Meeting”	a meeting of the Independent Ordinary Shareholders convened at the direction of the Grand Court at which the Ordinary Share Scheme will be voted upon
“Ordinary Share EGM”	an extraordinary general meeting to be held by the Company for the Ordinary Shareholders to consider and, if thought fit, approve, among others, (i) a special resolution in relation to the reduction of the number of issued Ordinary Shares in the share capital of the Company by cancelling and extinguishing the Scheme Ordinary Shares; (ii) a special resolution in relation to the withdrawal of listing of the Ordinary Shares upon the Ordinary Share Scheme becoming effective; (iii) an ordinary resolution in relation to the restoration of the number of issued Ordinary Shares in the share capital of the Company to its former amount by the issue of the same number of Ordinary Shares as the number of the Scheme Ordinary Shares cancelled, credited as fully paid, to the Offeror; (iv) a special resolution in relation to the reduction of the number of issued CPS in the share capital of the Company by cancelling and extinguishing the Scheme CPS; and (v) an ordinary resolution in relation to the restoration of the number of issued CPS in the share capital of the Company to its former amount by the issue of the same number of CPS as the number of the Scheme CPS cancelled, credited as fully paid, to the Offeror
“Ordinary Share Scheme”	a scheme of arrangement between the Company and Scheme Ordinary Shareholders under Section 86 of the Companies Law (subject to the Ordinary Share Scheme Conditions) involving the cancellation and reduction of all the Scheme Ordinary Shares and the restoration of the number of issued Ordinary Shares in the share capital of the Company to the amount immediately before the cancellation and reduction of the Scheme Ordinary Shares
“Ordinary Share Scheme Conditions”	the conditions to the implementation of the Ordinary Share Scheme as set out in the section headed “Ordinary Share Scheme Conditions” in Part IV and Part VII of this Scheme Document
“Ordinary Share Scheme Court Meeting Record Date”	Friday, 4 October 2019 or such other date as may be announced to, among others, the Independent Ordinary Shareholders, being the record date for the purpose of determining the entitlement of the Independent Ordinary Shareholders to attend and vote at the Ordinary Share Court Meeting



“Ordinary Shareholder(s)”	holder(s) of the Ordinary Share(s)
“Other Offeror Concert Parties”	Offeror Concert Parties holding Ordinary Shares in the Company, excluding the Principal Offeror Concert Party
“Principal Offeror Concert Party”	CPG Enterprise Limited, a company incorporated in the British Virgin Islands which is indirectly owned as to 99.99% by Charoen Pokphand Group, the ultimate controlling shareholder of the Company and which ultimately and indirectly owns the Offeror
“Proposal”	the proposal for the privatisation of the Company by the Offeror by way of the Ordinary Share Scheme and the CPS Scheme
“PRC”	the People’s Republic of China, but for the purpose of this Scheme Document, excluding Hong Kong, Macau Special Administrative Region and Taiwan
“Registered Owner”	any owner of relevant 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 Authorities”	appropriate governments and/or governmental bodies, regulatory bodies, courts or institutions
“Relevant Period”	the period commencing on 18 December 2018 (being the date falling six (6) months prior to the Announcement Date) and ending on the Latest Practicable Date, both dates inclusive
“RMB”	renminbi, the lawful currency of the PRC
“Scheme CPS”	CPS other than those directly or indirectly held by the Offeror as at the Scheme CPS Record Time on the Scheme CPS Record Date
“Scheme CPS Holder(s)”	the holders of Scheme CPS as at the Scheme CPS Record Time on the Scheme CPS Record Date
“Scheme CPS Record Date”	Monday, 14 October 2019 or such other date as shall have been announced to the Independent CPS Holders, being the record date for the purpose of determining the entitlement of the Independent CPS Holders to the CPS Cancellation Price upon the CPS Scheme becoming effective
“Scheme CPS Record Time”	4:00 p.m. (Hong Kong time) on the Scheme CPS Record Date

“Scheme Document”	this composite scheme document of the Company and the Offeror issued to, among others, all Ordinary Shareholders and all CPS Holders containing, inter alia, further details of the Proposal
“Scheme Ordinary Share(s)”	Ordinary Share(s) other than those directly or indirectly held by the Offeror and the Principal Offeror Concert Party as at the Scheme Ordinary Share Record Time on the Scheme Ordinary Share Record Date
“Scheme Ordinary Share Record Date”	Monday, 14 October 2019 or such other date as shall have been announced to the Independent Ordinary Shareholders, being the record date for the purpose of determining the entitlement of the Independent Ordinary Shareholders to the Ordinary Share Cancellation Price upon the Ordinary Share Scheme becoming effective
“Scheme Ordinary Share Record Time”	4:00 p.m. (Hong Kong time) on the Scheme Ordinary Share Record Date
“Scheme Ordinary Shareholder(s)”	the holders of Scheme Ordinary Shares as at the Scheme Ordinary Share Record Time on the Scheme Ordinary Share Record Date
“Scheme Record Date”	the Scheme Ordinary Share Record Date and/or the Scheme CPS Record Date (as the case may be)
“Series A Convertible Preference Shares”	the unlisted, non-voting (save and except for resolution for the winding-up of the Company or resolution if passed would vary or abrogate the rights and privileges of the holders of the Series A Convertible Preference Shares) series A convertible preference shares of HK\$0.02 par value each in the share capital of the Company and as far as the Directors are aware, the holder of which is the Offeror
“Series B Convertible Preference Shares”	the unlisted, non-voting (save and except for resolution for the winding-up of the Company or resolution if passed would vary or abrogate the rights and privileges of the holders of the Series B Convertible Preference Shares) series B convertible preference shares of HK\$0.02 par value each in the share capital of the Company and as far as the Directors are aware, the holder of which is the Offeror

“Series D Convertible Preference Shares”	the unlisted, non-voting (save and except for resolution for the winding-up of the Company or resolution if passed would vary or abrogate the rights and privileges of the holders of the Series D Convertible Preference Shares) series D convertible preference shares of HK\$0.02 par value each in the share capital of the Company and as far as the Directors are aware, the holder of which is the Offeror
“SFC”	Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	Ordinary Shares and/or the Convertible Preference Shares (as the case may be)
“Shareholder(s)”	holder(s) of the Shares
“Somerville Capital”	Somerville Capital Limited, the financial adviser to the Offeror, a licensed corporation under the SFO, licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	the Code on Takeovers and Mergers of Hong Kong
“Trading Day”	a day on which the Stock Exchange is open for the business of dealings in securities
“US” or “United States”	the United States of America
“US Exchange Act”	the US Securities Exchange Act 1934, as amended
“US\$”	US dollar(s), the lawful currency of the US

*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 Cayman Islands Grand Court hearing of the petition to sanction the Ordinary Share Scheme and to confirm the reduction of the number of issued Ordinary Shares in the share capital of the Company, the expected date of the Cayman Islands Grand Court hearing of the petition to sanction the CPS Scheme and to confirm the reduction of the number of issued CPS in the share capital of the Company 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 THE ORDINARY SHAREHOLDERS AND THE CPS HOLDERS**

For the purpose of determining the entitlements of the Independent Ordinary Shareholders to attend and vote at the Ordinary Share Court Meeting and of the Ordinary Shareholders to attend and vote at the Ordinary Share EGM, the register of members of the Company in respect of Ordinary Shares will be closed from Monday, 30 September 2019 to Friday, 4 October 2019 (both dates inclusive) and during such period, no registration of transfer of Ordinary Shares will be effected. In order to qualify to attend and vote at the Ordinary Share Court Meeting and the Ordinary Share EGM, all transfers of Ordinary Shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Progressive Limited at Level 54, Hopewell Centre, No. 183 Queen's Road East, Hong Kong on or before 4:30 p.m. on Friday, 27 September 2019.

A **pink** form of proxy for use at the Ordinary Share Court Meeting and a **white** form of proxy for use at the Ordinary Share EGM are enclosed with copies of this Scheme Document sent to the relevant Registered Owners.

For the purpose of determining the entitlements of the Independent CPS Holders to attend and vote at the CPS Court Meeting and of the CPS Holders to attend and vote at the CPS EGM, the register of members of the Company in respect of CPS will be closed from Monday, 30 September 2019 to Friday, 4 October 2019 (both dates inclusive) and during such period, no registration of transfer of CPS will be effected. In order to qualify to attend and vote at the CPS Court Meeting and the CPS EGM, all transfers of CPS accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Progressive Limited at Level 54, Hopewell Centre, No. 183 Queen's Road East, Hong Kong on or before 4:30 p.m. on Friday, 27 September 2019.

A **green** form of proxy for use at the CPS Court Meeting and a **yellow** form of proxy for use at the CPS EGM are enclosed with copies of this Scheme Document sent to the relevant Registered Owners.

The register of members of the Company will be closed during such period for the purposes of determining the entitlement of the Independent Ordinary Shareholders and the Independent CPS Holders (as the case may be) to attend and vote at the relevant Court Meeting and the entitlement of the Ordinary Shareholders and the CPS Holders (as the case may be) to attend and vote at the relevant EGM. This book close period is not for determining entitlements under the Proposal.

Whether or not you are able to attend the relevant Court Meeting and/or the relevant EGM, we strongly urge you to complete and sign the enclosed relevant form of proxy in respect of the relevant Court Meeting and the enclosed relevant form of proxy in respect of the relevant EGM, in accordance with the instructions printed thereon, and to lodge them at the office of the Company's branch share registrar and transfer office in Hong Kong, Tricor Progressive Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong. In order to be valid, the **pink** forms of proxy for use at the Ordinary Share Court Meeting should be lodged not later than 9:30 a.m. on Wednesday, 2 October 2019 or be handed to the Chairman of the Court Meeting at the Ordinary Share Court Meeting (who shall have absolute discretion whether or not to accept it), and the **white** form of proxy for use at the Ordinary Share EGM should be lodged not later than 10:30 a.m. on Wednesday, 2 October 2019. In

order to be valid, the **green** forms of proxy for use at the CPS Court Meeting should be lodged not later than 11:30 a.m. on Wednesday, 2 October 2019 or be handed to the Chairman of the Court Meeting at the CPS Court Meeting (who shall have absolute discretion whether or not to accept it), and the **yellow** form of proxy for use at the CPS EGM should be lodged not later than 12:30 p.m. on Wednesday, 2 October 2019. The completion and return of a form of proxy for the relevant Court Meeting and/or the relevant 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 relevant Court Meeting and/or the relevant EGM, you will still be bound by the outcome of the relevant Court Meeting and the relevant EGM if, among other things, the relevant resolutions are passed by the requisite majorities of Independent Ordinary Shareholders or Ordinary Shareholders or Independent CPS Holders or CPS Holders (as the case may be). We therefore strongly urge you to attend and vote at the relevant Court Meeting and the relevant EGM in person or by proxy.

The Company will make an announcement in relation to the results of the Court Meetings and the EGMs on Friday, 4 October 2019. The Company will make further announcements of the results of the hearing of the petition to, among other things, sanction the Ordinary Share Scheme and/or the CPS Scheme (as the case may be) by the Cayman Islands Grand Court and, if the Ordinary Share Scheme and/or the CPS Scheme (as the case may be) is sanctioned, the Effective Date and the date of withdrawal of the listing of the Ordinary Shares on the Stock Exchange.

#### **ACTIONS TO BE TAKEN BY PERSONS HOLDING SHARES THROUGH TRUST OR CCASS**

The Company will not recognize 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 in relation to the manner in which your Shares should be voted at the relevant Court Meeting and/or the relevant EGM. Such instructions should be given in advance of the aforementioned latest time for the lodgment of forms of proxy in respect of the relevant Court Meeting and the relevant EGM in order to provide the Registered Owner with sufficient time to accurately complete and submit his, her or its proxy. To the extent that any Registered Owner requires instructions from any Beneficial Owner in advance of the aforementioned latest time for the lodgment of forms of proxy in respect of the relevant Court Meeting and/or the relevant 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 other CCASS Participant, regarding voting instructions to be given to such persons if you wish to vote at the relevant Court Meeting and/or the relevant EGM.** You should contact your broker, custodian, nominee or other relevant person in advance of the latest time for the lodgment of forms of proxy in respect of the relevant Court Meeting and/or the relevant EGM, in order to provide such person with sufficient time to provide HKSCC with instructions in relation to the manner in which the Shares of the Beneficial Owner should be voted at the relevant Court Meeting and/or the relevant EGM. HKSCC Nominees Limited may vote once for and once against the Ordinary Share Scheme or the CPS Scheme (as the case may be) in accordance with instructions

received from CCASS Participants (as defined under the General Rules of CCASS). The number of votes cast in favour of the Ordinary Share Scheme or CPS Scheme (as the case may be) and the number of CCASS Participants on whose instructions they are cast and the number of votes cast against the Ordinary Share Scheme or CPS Scheme (as the case may be) and the number of CCASS Participants on whose instructions they are cast will be disclosed to the Cayman Islands Grand Court and may be taken into account in deciding whether or not the Cayman Islands Grand Court should exercise its discretion to sanction the Ordinary Share Scheme or CPS Scheme (as the case may be).

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 relevant Court Meeting and the relevant EGM. You can become a Shareholder of record by withdrawing 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 relevant Court Meeting and the relevant 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 AN ORDINARY SHAREHOLDER OR A CPS HOLDER OR A BENEFICIAL OWNER, THE COMPANY AND THE OFFEROR 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 RELEVANT COURT MEETING AND AT THE RELEVANT EGM. IF YOU KEEP ANY SHARES IN A SHARE LENDING PROGRAMME, WE URGE YOU TO RECALL ANY OUTSTANDING SHARES ON LOAN TO AVOID MARKET PARTICIPANTS USING BORROWED SHARES TO VOTE.**

**IF YOU ARE A BENEFICIAL OWNER WHOSE ORDINARY SHARES OR CPS ARE DEPOSITED IN CCASS, WE ENCOURAGE YOU TO PROVIDE HKSCC WITH INSTRUCTIONS OR MAKE ARRANGEMENTS WITH HKSCC IN RELATION TO THE MANNER IN WHICH THOSE SHARES SHOULD BE VOTED AT THE RELEVANT COURT MEETING AND THE RELEVANT EGM WITHOUT DELAY (AS DETAILED IN THE SECTION “ACTIONS TO BE TAKEN BY PERSONS HOLDING SHARES THROUGH TRUST OR CCASS” ABOVE).**

**IF YOU ARE A REGISTERED OWNER HOLDING SHARES ON BEHALF OF BENEFICIAL OWNERS, WE SHOULD BE GRATEFUL IF YOU WOULD INFORM THE RELEVANT BENEFICIAL OWNERS ABOUT THE IMPORTANCE OF EXERCISING THEIR 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.**

*The following timetable takes into account the procedures of the Cayman Islands Grand Court for the Ordinary Share Scheme and/or the CPS Scheme. The expected timetable is indicative only and is subject to change. Further announcement(s) will be made if there is any change to the following expected timetable.*

**Hong Kong date and time**

Despatch of this Scheme Document . . . . . Wednesday, 11 September 2019

Latest time for lodging transfers of Ordinary Shares in order to become entitled to vote at the Ordinary Share Court Meeting and the Ordinary Share EGM . . . . . 4:30 p.m. on Friday, 27 September 2019

Latest time for lodging transfers of CPS in order to become entitled to vote at the CPS Court Meeting and the CPS EGM . . . . . 4:30 p.m. on Friday, 27 September 2019

Register of members of the Company in respect of the Ordinary Shares closed for determining the entitlement of Independent Ordinary Shareholders to attend and vote at the Ordinary Share Court Meeting and the entitlement of the Ordinary Shareholders to attend and vote at the Ordinary Share EGM (*Note 1*) . . . . . Monday, 30 September 2019 to Friday, 4 October 2019 (both dates inclusive)

Register of members of the Company in respect of the CPS closed for determining the entitlement of Independent CPS Holders to attend and vote at the CPS Court Meeting and the entitlement of the CPS Holders to attend and vote at the CPS EGM (*Note 1*) . . . . . Monday, 30 September 2019 to Friday, 4 October 2019 (both dates inclusive)

Latest time for lodging the **pink** forms of proxy in respect of the Ordinary Share Court Meeting (*Note 2*) . . . . . 9:30 a.m. on Wednesday, 2 October 2019

Latest time for lodging the **white** form of proxy in respect of the Ordinary Share EGM (*Note 2*) . . . . . 10:30 a.m. on Wednesday, 2 October 2019

Latest time for lodging the **green** forms of proxy in respect of the CPS Court Meeting (*Note 2*) . . . . . 11:30 a.m. on Wednesday, 2 October 2019

Latest time for lodging the <b>yellow</b> form of proxy in respect of the CPS EGM ( <i>Note 2</i> )	12:30 p.m. on Wednesday, 2 October 2019
Meeting Record Date	Friday, 4 October 2019
Ordinary Share Court Meeting ( <i>Note 3</i> )	9:30 a.m. on Friday, 4 October 2019
Ordinary Share EGM ( <i>Note 3</i> )	10:30 a.m. on Friday, 4 October 2019 (or so soon as after the Ordinary Share Court Meeting shall have been concluded or adjourned)
CPS Court Meeting ( <i>Note 3</i> )	11:30 a.m. on Friday, 4 October 2019
CPS EGM ( <i>Note 3</i> )	12:30 p.m. on Friday, 4 October 2019 (or so soon as after the CPS Court Meeting shall have been concluded or adjourned)
Announcement of the results of the Ordinary Share Court Meeting and the Ordinary Share EGM	not later than 7:00 p.m. on Friday, 4 October 2019
Announcement of the results of the CPS Court Meeting and the CPS EGM	not later than 7:00 p.m. on Friday, 4 October 2019
Expected last day for trading in the Ordinary Shares on the Stock Exchange	Tuesday, 8 October 2019
Latest time for lodging transfers of Ordinary Shares in order to qualify for entitlements under the Ordinary Share Scheme	4:30 p.m. on Friday, 11 October 2019
Latest time for lodging transfers of CPS in order to qualify for entitlements under the CPS Scheme	4:30 p.m. on Friday, 11 October 2019
Register of members of the Company in respect of the Ordinary Shares closed for determining entitlements to qualify under the Ordinary Share Scheme ( <i>Note 4</i> )	from Monday, 14 October 2019 onwards



Register of members of the Company in respect of the CPS closed for determining entitlements to qualify under the CPS Scheme ( <i>Note 4</i> ) . . . . .	from Monday, 14 October 2019 onwards
Scheme Ordinary Share Record Date and Scheme CPS Record Date . . . . .	Monday, 14 October 2019
Court hearing of the petition to sanction the Ordinary Share Scheme and to confirm the reduction of the number of issued Ordinary Shares . . . . .	Tuesday, 22 October 2019 <b>(Cayman Islands time)</b>
Court hearing of the petition to sanction the CPS Scheme and to confirm the reduction of the number of issued CPS . . . . .	Tuesday, 22 October 2019 <b>(Cayman Islands time)</b>
Announcement of the result of the Court Hearing, the expected Effective Date and the expected date of withdrawal of listing of the Ordinary Shares on the Stock Exchange. . . . .	Thursday, 24 October 2019
Effective Date ( <i>Note 5</i> ) . . . . .	Thursday, 24 October 2019 <b>(Cayman Islands time)</b>
Announcement of the Effective Date and the withdrawal of listing of the Ordinary Shares on the Stock Exchange . . . . .	Friday, 25 October 2019
Expected withdrawal of listing of the Ordinary Shares on the Stock Exchange becomes effective ( <i>Note 6</i> ) . . . . .	4:00 p.m. on Monday, 28 October 2019
Cheques for cash entitlements under the Scheme to be despatched ( <i>Note 7</i> ). . . . .	on or before Monday, 4 November 2019

Ordinary Shareholders and CPS Holders 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 purposes of determining the entitlement of the Independent Ordinary Shareholders and the Independent CPS Holders (as the case may be) to attend and vote at the relevant Court Meeting and the entitlement of the Ordinary Shareholders and the CPS Holders (as the case may be) to attend and vote at the relevant EGM. This book close period is not for determining entitlements under the Proposal.

2. Forms of proxy should be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Progressive 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 stated above or, in the case of the relevant forms of proxy for use at the relevant Court Meetings, they may be handed to the chairman of the relevant Court Meeting (who shall have absolute discretion whether or not to accept it). Completion and return of the relevant form of proxy for the relevant Court Meeting or the relevant EGM will not preclude an Independent Ordinary Shareholder or Ordinary Shareholder or an Independent CPS Holder or CPS Holder (as the case may be), from attending the relevant meeting and voting in person. In such event, the relevant form of proxy returned will be deemed to have been revoked.
3. Please see the notice of the Ordinary Share Court Meeting set out in Appendix IV to this Scheme Document and the notice of the Ordinary Share EGM set out in Appendix V to this Scheme Document. Please see the notice of the CPS Court Meeting set out in Appendix VII to this Scheme Document and the notice of the CPS EGM set out in Appendix VIII to this Scheme Document.
4. The register will be closed as from such date and on such date for the purpose of determining the Independent Ordinary Shareholders and the Independent CPS holders (as the case may be) who are qualified for entitlement under the Scheme.
5. When all the Ordinary Share Scheme Conditions are satisfied or waived (as applicable), the Ordinary Share Scheme may be delivered to the Registrar of Companies in the Cayman Islands at which point it will become effective and binding on the Offeror, the Company and all the Scheme Ordinary Shareholders. When all the CPS Scheme Conditions are satisfied or waived (as applicable), the CPS Scheme may be delivered to the Registrar of Companies in the Cayman Islands at which point it will become effective and binding on the Offeror, the Company and all the Scheme CPS Holders. The Effective Date would be earlier than the date of announcement of the Effective Date and the withdrawal of listing of the Ordinary Shares on the Stock Exchange.
6. If all the Ordinary Share Scheme Conditions are fulfilled (or waived as applicable), the Offeror will implement the Ordinary Share Scheme to cancel the Scheme Ordinary Shares and the Company will apply to the Stock Exchange for the withdrawal of listing of the Ordinary Shares on the Stock Exchange.
7. Cheques for the cash entitlements to the Scheme Ordinary Shareholders and the Scheme CPS Holders will be despatched by ordinary post at the risk of the recipients to their registered addresses shown in the register of members of the Company on or before Monday, 4 November 2019.

*All references to times and dates are references to Hong Kong times and dates, except as otherwise specified.*

**C.P. Lotus Corporation**

卜蜂蓮花有限公司

*(Incorporated in the Cayman Islands with limited liability)***(Stock Code: 00121)***Executive Directors:*Mr. Soopakij Chearavanont (*Chairman*)Mr. Li Wen Hai (*Executive Chairman*)Mr. Narong Chearavanont (*Vice Chairman*)Mr. Michael Ross (*Vice Chairman*)Mr. Yang Xiaoping (*Vice Chairman*)

Mr. Meth Jiaravanont

Mr. Suphachai Chearavanont

Mr. Umroong Sanphasitvong

*Independent non-executive Directors:*

Mr. Viroj Sangsnit

Mr. Songkitti Jaggabatara

Mr. Itthaporn Subhawong

Mr. Prasobsook Boondech

Mr. Cheng Yuk Wo

*Registered office:*

Cricket Square

Hutchins Drive

P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

*Head office and principal**place of business in Hong Kong*

21st Floor

Far East Finance Centre

16 Harcourt Road

Hong Kong

11 September 2019

*To the Ordinary Shareholders and CPS Holders*

Dear Sir or Madam,

**(1) PROPOSED PRIVATISATION OF C.P. LOTUS CORPORATION  
BY C.P. HOLDING (BVI) INVESTMENT COMPANY LIMITED  
BY WAY OF TWO SCHEMES OF ARRANGEMENT  
(BOTH UNDER SECTION 86 OF THE COMPANIES LAW  
OF THE CAYMAN ISLANDS)**

**AND**

**(2) PROPOSED WITHDRAWAL OF LISTING**

**1. INTRODUCTION**

On 18 June 2019, the Offeror requested the Board to put forward the Proposal for the privatisation of the Company, which will involve (i) the Ordinary Share Scheme to cancel the Scheme Ordinary Shares and the payment of the Ordinary Share Cancellation Price to Scheme Ordinary Shareholders, and the withdrawal of the listing of the Ordinary Shares on the Stock Exchange; and

(ii) the CPS Scheme to cancel the Scheme CPS and the payment of the CPS Cancellation Price to Scheme CPS Holders. Each of the Ordinary Share Scheme and the CPS Scheme will be carried out by way of a scheme of arrangement under Section 86 of the Companies Law. The implementation of the Ordinary Share Scheme is not conditional on the implementation of the CPS Scheme but the CPS Scheme will only be implemented upon the Ordinary Share Scheme becoming unconditional.

If both the Ordinary Share Scheme and the CPS Scheme are approved and the Proposal is implemented, the share capital of the Company will, on the effective date of the Ordinary Share Scheme and the CPS Scheme, be reduced by cancelling and extinguishing the Scheme Ordinary Shares and the Scheme CPS. Upon such reduction, the share capital of the Company will be increased to its former amount by the issuance at par to the Offeror, credited as fully paid, of the aggregate number of Ordinary Shares and CPS as is equal to the number of Scheme Ordinary Shares and Scheme CPS cancelled respectively. 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 Ordinary Shares and new CPS so issued, credited as fully paid, to the Offeror. If only the Ordinary Share Scheme becomes unconditional and implemented, there will not be cancellation of the Scheme CPS and issuance of new CPS.

The purpose of this Scheme Document is to provide you with further information regarding the Proposal and the expected timetable and to give you notices of the Court Meetings and the EGMs (together with proxy forms in relation thereto). Your attention is also drawn to the letter from the Independent Board Committee set out in Part V of this Scheme Document, the letter from the Independent Financial Adviser set out in Part VI of this Scheme Document, the Explanatory Statement set out in Part VII of this Scheme Document and the terms of the Ordinary Share Scheme and the CPS Scheme set out in Appendix III and Appendix VI to this Scheme Document respectively.

## **2. THE PROPOSAL**

### **THE ORDINARY SHARE SCHEME**

Under the Ordinary Share Scheme, the Scheme Ordinary Shares will be cancelled and, in consideration thereof, each Scheme Ordinary Shareholder will be entitled to receive the Ordinary Share Cancellation Price, being HK\$0.11 in cash for each Scheme Ordinary Share cancelled.

The total consideration payable to the Scheme Ordinary Shareholders for the Scheme Ordinary Shares cancelled will be paid by the Offeror.

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

The Ordinary Share Cancellation Price of HK\$0.11 per Scheme Ordinary Share cancelled represents:

- a premium of approximately 52.8% over the audited consolidated net asset value (the “NAV”) per Share of approximately HK\$0.072 as at 31 December 2018, calculated based on the NAV of the Group of approximately HK\$1,606.0 million (based on the exchange rate of HK\$1:RMB0.8762, the central parity rate published by the People’s Bank of China on its website as at 28 December 2018 for illustrative purposes) and the 22,317,882,172 Shares in issue as at 31 December 2018;
- a premium of approximately 57.1% over the unaudited consolidated NAV per Share of approximately HK\$0.070 as at 30 June 2019, calculated based on the NAV of the Group of approximately HK\$1,569.2 million (based on the exchange rate of HK\$1:RMB0.8797, the central parity rate published by the People’s Bank of China on its website as at 28 June 2019 for illustrative purposes) and the 22,317,882,172 Shares in issue as at 30 June 2019;
- a premium of approximately 10.0% over the closing price of HK\$0.1 per Ordinary Share as quoted on the Stock Exchange on the Last Trading Day;
- a premium of approximately 12.0% over the average closing price of approximately HK\$0.0982 per Ordinary 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 29.4% over the average closing price of approximately HK\$0.0850 per Ordinary 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 30.3% over the average closing price of approximately HK\$0.0844 per Ordinary 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 26.5% over the average closing price of approximately HK\$0.0870 per Ordinary 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 28.1% over the average closing price of approximately HK\$0.0859 per Ordinary 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 21.9% over the average closing price of approximately HK\$0.0902 per Ordinary 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; and

- a premium of approximately 4.8% over the closing price of HK\$0.105 per Ordinary Share as quoted on the Stock Exchange on the Latest Practicable Date.

The Ordinary Share Cancellation Price has been determined on an arm's length basis after taking into account the financial information of the Group including the financial position of the Group as at 31 December 2018, the prices of the Ordinary Shares traded on the Stock Exchange and other privatization transactions in Hong Kong in recent years.

#### **Trading volume and liquidity of the Ordinary Shares**

The trading volume and liquidity of the Ordinary Shares during the relevant periods prior to and including the Last Trading Day are illustrated below:

- on the Last Trading Day, a total number of approximately 0.89 million Ordinary Shares were traded with a turnover of approximately HK\$86,390;
- during the period from the last 10 trading days up to and including the Last Trading Day, a total number of approximately 8.43 million Ordinary Shares were traded with a turnover of approximately HK\$802,966, an average daily trading volume of approximately 0.84 million Ordinary Shares and average daily turnover of approximately HK\$80,297;
- during the period from the last 30 trading days up to and including the Last Trading Day, a total number of approximately 24.49 million Ordinary Shares were traded with a turnover of approximately HK\$2.04 million, an average daily trading volume of approximately 0.82 million Ordinary Shares and average daily turnover of approximately HK\$67,898;
- during the period from the last 60 trading days up to and including the Last Trading Day, a total number of approximately 32.20 million Ordinary Shares were traded with a turnover of approximately HK\$2.63 million, an average daily trading volume of approximately 0.54 million Ordinary Shares and average daily turnover of approximately HK\$43,776;
- during the period from the last 90 trading days up to and including the Last Trading Day, a total number of approximately 48.64 million Ordinary Shares were traded with a turnover of approximately HK\$4.26 million, an average daily trading volume of approximately 0.54 million Ordinary Shares and average daily turnover of approximately HK\$47,332;
- during the period from the last 120 trading days up to and including the Last Trading Day, a total number of approximately 54.91 million Ordinary Shares were traded with a turnover of approximately HK\$4.74 million, an average daily trading volume of approximately 0.46 million Ordinary Shares and average daily turnover of approximately HK\$39,539;
- during the period from the last 180 trading days up to and including the Last Trading Day, a total number of approximately 66.61 million Ordinary Shares were traded with a turnover of approximately HK\$5.90 million, an average daily trading volume of approximately 0.37 million Ordinary Shares and average daily turnover of approximately HK\$32,770;

During the period from the last 180 trading days up to and including the Last Trading Day, there was no trading of the Ordinary Shares on 87 trading days, representing approximately 48.33% of the total number of trading days during that period.

### **Ordinary Share Scheme Conditions**

The Ordinary Share Scheme will become effective and binding on the Offeror, the Company and the Scheme Ordinary Shareholders, subject to the fulfilment or waiver (as applicable) of the following Ordinary Share Scheme Conditions:

- (a) the approval of the Ordinary Share Scheme (by way of poll) by a majority in number of the Independent Ordinary Shareholders representing not less than 75% in value of the Ordinary Shares held by the Independent Ordinary Shareholders present and voting either in person or by proxy at the Ordinary Share Court Meeting;
- (b) (i) the Ordinary Share Scheme is approved (by way of poll) by the Independent Ordinary Shareholders holding at least 75% of the votes attaching to the Ordinary Shares held by the Independent Ordinary Shareholders that are voted either in person or by proxy at the Ordinary Share Court Meeting; and (ii) the number of votes cast (by way of poll) by the Independent Ordinary Shareholders present and voting either in person or by proxy at the Ordinary Share Court Meeting against the resolution to approve the Ordinary Share Scheme at the Ordinary Share Court Meeting is not more than 10% of the votes attaching to all Ordinary Shares held by all the Independent Ordinary Shareholders;
- (c) (i) the passing of a special resolution by a majority of not less than three-fourths of the votes cast by the Ordinary Shareholders present and voting in person or by proxy at the Ordinary Share EGM to approve and give effect to the reduction of the number of issued Ordinary Shares in the share capital of the Company by cancelling and extinguishing the Scheme Ordinary Shares, and (ii) the passing of an ordinary resolution by the Ordinary Shareholders at the Ordinary Share EGM to immediately thereafter increase the issued Ordinary Shares to the amount prior to the cancellation of the Scheme Ordinary Shares and apply the reserve created as a result of the aforesaid cancellation of the Scheme Ordinary Shares to pay up in full at par such number of new Ordinary Shares as is equal to the number of Scheme Ordinary Shares cancelled as a result of the Ordinary Share Scheme, credited as fully paid, for issuance to the Offeror;
- (d) the Grand Court's sanction of the Ordinary Share Scheme (with or without modifications) and its confirmation of the reduction of the number of issued Ordinary Shares in the 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 for registration;
- (e) compliance, to the extent necessary, with the procedural requirements and conditions, if any, under Sections 15 and 16 of the Companies Law in relation to the reduction of the number of issued Ordinary Shares in the share capital of the Company;

- (f) all authorisations, registrations, filings, rulings, consents, opinions, permissions and approvals in connection with the Ordinary Share Scheme required before the Ordinary Share Scheme becoming effective having been obtained from, given by or made with (as the case may be) the Relevant Authorities, in the Cayman Islands, Hong Kong and any other relevant jurisdictions;
- (g) all authorisations, registrations, filings, rulings, consents, opinions, permissions and approvals in connection with the Ordinary Share Scheme required before the Ordinary Share Scheme becoming effective remaining in full force and effect without variation, and all necessary statutory or regulatory obligations in all relevant jurisdictions having been complied with and no requirement having been imposed by any Relevant Authorities which is not expressly provided for, or is in addition to requirements expressly provided for, in relevant laws, rules, regulations or codes in connection with the Ordinary Share Scheme or any matters, documents (including circulars) or things relating thereto, in each aforesaid case up to and at the time when the Ordinary Share Scheme becomes effective;
- (h) all necessary consents which may be required for the implementation of the Ordinary Share Scheme under any existing contractual obligations of the Company being obtained or waived by the relevant party(ies), where any failure to obtain such consent or waiver would have a material adverse effect on the business of the Group;
- (i) no government, governmental, quasi-governmental, statutory or regulatory body, court or agency in any jurisdiction having taken or instituted any action, proceeding, suit, investigation or enquiry or enacted, made or proposed, and there not continuing to be outstanding, any statute, regulation, demand or order that would make the Ordinary Share 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 Ordinary Share Scheme or its implementation in accordance with its terms), other than such actions, proceedings, suits, investigations or enquiries as would not have a material adverse effect on the legal ability of the Offeror to proceed with the Ordinary Share Scheme;
- (j) there being no provision of any arrangement, agreement, licence or other instrument to which any member of the Group is a party or by or to which any of them is or are or may be bound, entitled or subject which as a consequence of the implementation of the Ordinary Share Scheme could or might reasonably result in, to an extent which is material in the context of the Group taken as a whole:
  - (i) any monies borrowed by or other indebtedness (actual or contingent) of any member of the Group being repayable or being capable of being declared payable prior to their stated maturity;
  - (ii) the creation of any mortgage, charge or other security interest over the whole or any material part of the business, property or assets of any member of the Group or any such security (whether arising or having arisen) becoming enforceable; and



- (iii) any such arrangement, agreement, licence, permit, franchise or other instrument being terminated or adversely modified or any material action being taken or any material obligation arising thereunder; and
  
- (k) each member of the Group remaining solvent and not being subject to any insolvency or bankruptcy proceedings or likewise and no liquidator, receiver or other person carrying out any similar function having been appointed anywhere in the world in respect of the whole or any substantial part of the assets and undertakings of any member of the Group from the Announcement Date up to the date when all the Ordinary Share Scheme Conditions are satisfied or validly waived (as applicable).

The Offeror reserves the right to waive Ordinary Share Scheme Conditions (f) to (k) either in whole or in part, either generally or in respect of any particular matter. Ordinary Share Scheme Conditions (a) to (e) cannot be waived in any event. Pursuant to Note 2 to Rule 30.1 of the Takeovers Code, the Offeror may only invoke any or all of the Ordinary Share Scheme Conditions as a basis for not proceeding with the Ordinary Share Scheme if the circumstances which give rise to the right to invoke any such Ordinary Share Scheme Condition are of material significance to the Offeror in the context of the Ordinary Share Scheme. The Company has no right to waive any of the Ordinary Share Scheme Conditions. All of the above Ordinary Share Scheme Conditions will have to be fulfilled or waived, as applicable, on or before the Long Stop Date, failing which the Ordinary Share Scheme will lapse. When all the Ordinary Share Scheme Conditions are satisfied or waived (as applicable), the Ordinary Share Scheme may be delivered to the Registrar of Companies in the Cayman Islands at which point it will become effective and binding on the Offeror, the Company and all the Scheme Ordinary Shareholders.

Assuming that the Ordinary Share Scheme Conditions are satisfied or validly waived (as applicable), it is expected that the Ordinary Share Scheme will become effective on or around Thursday, 24 October 2019 (Cayman Islands time). Please refer to the expected timetable set out in Part III of this Scheme Document for further details.

In respect of Ordinary Share Scheme Conditions (f) to (h), the Offeror is not currently aware of any authorisations or consents which are required.

The Offeror is not a party to any agreements or arrangements which relate to circumstances in which it may or may not invoke or seek to invoke any of the Ordinary Share Scheme Conditions. Pursuant to Note 2 to Rule 30.1 of the Takeovers Code, the Offeror will not invoke any Ordinary Share Scheme Condition so as to cause the Ordinary Share Scheme not to become effective unless the circumstances which give rise to the right to invoke the Ordinary Share Scheme Condition are of material significance to the Offeror in the context of the Ordinary Share Scheme.

As at the Latest Practicable Date, none of the Ordinary Share Scheme Conditions have been fulfilled or waived.

**THE CPS SCHEME**

Under the CPS Scheme, the Scheme CPS will be cancelled and, in consideration thereof, each Scheme CPS Holder will be entitled to receive the CPS Cancellation Price, being HK\$0.11 in cash for each Scheme CPS cancelled.

The total consideration payable to the Scheme CPS Holders for the Scheme CPS cancelled will be payable by the Offeror.

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

The CPS Cancellation Price has been determined on an arm's length basis with reference to the Ordinary Share Cancellation Price.

**CPS Scheme Conditions**

The CPS Scheme will become effective and binding on the Offeror, the Company and the Scheme CPS Holders, subject to the fulfilment or waiver (as applicable) of the following CPS Scheme Conditions:

- (a) the approval of the CPS Scheme (by way of poll) by a majority in number of the Independent CPS Holders representing not less than 75% in value of the CPS held by the Independent CPS Holders present and voting either in person or by proxy at the CPS Court Meeting;
- (b) (i) the CPS Scheme is approved (by way of poll) by the Independent CPS Holders holding at least 75% of the votes attaching to the CPS held by the Independent CPS Holders that are voted either in person or by proxy at the CPS Court Meeting; and (ii) the number of votes cast (by way of poll) by the Independent CPS Holders present and voting either in person or by proxy at the CPS Court Meeting against the resolution to approve the CPS Scheme at the CPS Court Meeting is not more than 10% of the votes attaching to all CPS held by all the Independent CPS Holders;
- (c) (i) the passing of a special resolution by a majority of not less than three-fourths of the votes cast by the CPS Holders present and voting in person or by proxy at the CPS EGM to approve and give effect to the reduction of the number of issued CPS in the share capital of the Company by cancelling and extinguishing the Scheme CPS, and (ii) the passing of an ordinary resolution by the CPS Holders at the CPS EGM to immediately thereafter increase the issued CPS to the amount prior to the cancellation of the Scheme CPS and apply the reserve created as a result of the aforesaid cancellation of the Scheme CPS to pay up in full at par such number of new CPS as is equal to the number of Scheme CPS cancelled as a result of the CPS Scheme, credited as fully paid, for issuance to the Offeror;

- (d) (i) the passing of a special resolution by a majority of not less than three-fourths of the votes cast by the Ordinary Shareholders present and voting in person or by proxy at the Ordinary Share EGM to approve and give effect to the reduction of the number of issued CPS in the share capital of the Company by cancelling and extinguishing the Scheme CPS, and (ii) the passing of an ordinary resolution by the Ordinary Shareholders at the Ordinary Share EGM to immediately thereafter increase the issued CPS to the amount prior to the cancellation of the Scheme CPS and apply the reserve created as a result of the aforesaid cancellation of the Scheme CPS to pay up in full at par such number of new CPS as is equal to the number of Scheme CPS cancelled as a result of the CPS Scheme, credited as fully paid, for issuance to the Offeror;
- (e) all the Ordinary Share Scheme Conditions having been fulfilled (or waived as applicable) on or before the Long Stop Date;
- (f) the Grand Court's sanction of the CPS Scheme (with or without modifications) and its confirmation of the reduction of the number of issued CPS in the 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 for registration;
- (g) compliance, to the extent necessary, with the procedural requirements and conditions, if any, under Sections 15 and 16 of the Companies Law in relation to the reduction of the number of issued CPS in the share capital of the Company;
- (h) all authorisations, registrations, filings, rulings, consents, opinions, permissions and approvals in connection with the CPS Scheme required before the CPS Scheme becoming effective having been obtained from, given by or made with (as the case may be) the Relevant Authorities, in the Cayman Islands, Hong Kong and any other relevant jurisdictions;
- (i) all authorisations, registrations, filings, rulings, consents, opinions, permissions and approvals in connection with the CPS Scheme remaining required before the CPS Scheme becoming effective in full force and effect without variation, and all necessary statutory or regulatory obligations in all relevant jurisdictions having been complied with and no requirement having been imposed by any Relevant Authorities which is not expressly provided for, or is in addition to requirements expressly provided for, in relevant laws, rules, regulations or codes in connection with the CPS Scheme or any matters, documents (including circulars) or things relating thereto, in each aforesaid case up to and at the time when the CPS Scheme becomes effective;
- (j) all necessary consents which may be required for the implementation of the CPS Scheme under any existing contractual obligations of the Company being obtained or waived by the relevant party(ies), where any failure to obtain such consent or waiver would have a material adverse effect on the business of the Group;

- (k) no government, governmental, quasi-governmental, statutory or regulatory body, court or agency in any jurisdiction having taken or instituted any action, proceeding, suit, investigation or enquiry or enacted, made or proposed, and there not continuing to be outstanding, any statute, regulation, demand or order that would make the CPS 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 CPS Scheme or its implementation in accordance with its terms), other than such actions, proceedings, suits, investigations or enquiries as would not have a material adverse effect on the legal ability of the Offeror to proceed with the CPS Scheme;
- (l) there being no provision of any arrangement, agreement, licence or other instrument to which any member of the Group is a party or by or to which any of them is or are or may be bound, entitled or subject which as a consequence of the implementation of the CPS Scheme or because of a change in control or management of the Company could or might reasonably result in, to an extent which is material in the context of the Group taken as a whole:
  - (i) any monies borrowed by or other indebtedness (actual or contingent) of any member of the Group being repayable or being capable of being declared payable prior to their stated maturity;
  - (ii) the creation of any mortgage, charge or other security interest over the whole or any material part of the business, property or assets of any member of the Group or any such security (whether arising or having arisen) becoming enforceable; and
  - (iii) any such arrangement, agreement, licence, permit, franchise or other instrument being terminated or adversely modified or any material action being taken or any material obligation arising thereunder; and
- (m) each member of the Group remaining solvent and not being subject to any insolvency or bankruptcy proceedings or likewise and no liquidator, receiver or other person carrying out any similar function having been appointed anywhere in the world in respect of the whole or any substantial part of the assets and undertakings of any member of the Group from the Announcement Date up to the date when all the CPS Scheme Conditions are satisfied or validly waived (as applicable).

The Offeror reserves the right to waive CPS Scheme Conditions (h) to (m) either in whole or in part, either generally or in respect of any particular matter. CPS Scheme Conditions (a) to (g) cannot be waived in any event. Pursuant to Note 2 to Rule 30.1 of the Takeovers Code, the Offeror may only invoke any or all of the CPS Scheme Conditions as a basis for not proceeding with the CPS Scheme if the circumstances which give rise to the right to invoke any such CPS Scheme Condition are of material significance to the Offeror in the context of the CPS Scheme. The Company has no right to waive any of the CPS Scheme Conditions. All of the above CPS Scheme Conditions will have to be fulfilled or waived, as applicable, on or before the Long Stop Date, failing which the CPS Scheme will lapse. When all the CPS Scheme Conditions are satisfied or waived (as applicable), the CPS Scheme may be delivered to the Registrar of Companies in the Cayman Islands at which point it will become effective and binding on the Offeror, the Company and all the Scheme CPS Holders.

Assuming that the CPS Scheme Conditions are satisfied or validly waived (as applicable), it is expected that the CPS Scheme will become effective on or around Thursday, 24 October 2019 (Cayman Islands time). Please refer to the expected timetable set out in Part III of this Scheme Document for further details.

In respect of CPS Scheme Condition (h) to (j), the Offeror is not currently aware of any authorisations or consents which are required.

The Offeror is not a party to any agreements or arrangements which relate to circumstances in which it may or may not invoke or seek to invoke any of the CPS Scheme Conditions. Pursuant to Note 2 to Rule 30.1 of the Takeovers Code, the Offeror will not invoke any CPS Scheme Condition so as to cause the CPS Scheme not to become effective unless the circumstances which give rise to the right to invoke the CPS Scheme Condition are of material significance to the Offeror in the context of the CPS Scheme.

As at the Latest Practicable Date, none of the CPS Scheme Conditions have been fulfilled or waived.

## **PROPOSAL**

As mentioned above, the implementation of the Ordinary Share Scheme is not conditional on the implementation of the CPS Scheme but the CPS Scheme is conditional on, and will only be implemented upon, all the Ordinary Share Scheme Conditions being fulfilled (or waived as applicable) on or before the Long Stop Date. Pursuant to Note 3 to Rule 14 of the Takeovers Code, an offer for one class of equity share capital must be conditional on the offers for other classes of equity share capital becoming or being declared unconditional. The Offeror has made an application to the Executive for, and the Executive has granted, a waiver from the requirement under Note 3 to Rule 14 of the Takeovers Code such that the Ordinary Share Scheme will not be conditional on the CPS Scheme becoming or being declared unconditional.

Ordinary Shares directly or indirectly held by the Principal Offeror Concert Party as at the Scheme Ordinary Share Record Time on the Scheme Ordinary Share Record Date do not count as Scheme Ordinary Shares.

If all the Ordinary Share Scheme Conditions are fulfilled (or waived as applicable) on or before the Long Stop Date, the Offeror will implement the Ordinary Share Scheme to cancel the Scheme Ordinary Shares and the Company will apply to the Stock Exchange for the withdrawal of listing of the Ordinary Shares on the Stock Exchange.

Subject to the fulfilment (or waiver, as applicable) of all the CPS Scheme Conditions, the Offeror will also implement the CPS Scheme to cancel the Scheme CPS. If only the Ordinary Share Scheme has become unconditional but not the CPS Scheme on or before the Long Stop Date, the Offeror will only implement the Ordinary Share Scheme. In this case, the Company will also apply to the Stock Exchange for the withdrawal of listing of the Ordinary Shares on the Stock Exchange.

The implementation of the CPS Scheme is subject to CPS Scheme Condition (e) which requires all the Ordinary Share Scheme Conditions having been fulfilled (or waived as applicable) on or before the Long Stop Date. If the Ordinary Share Scheme does not become unconditional on or before the Long Stop Date, the Proposal will not be implemented and both the Ordinary Share Scheme and the CPS Scheme will not become effective.

**Warnings:**

**Shareholders and potential investors of the Company should be aware that the implementation of each of the Ordinary Share Scheme and the CPS Scheme is subject to the Ordinary Share Scheme Conditions and the CPS Scheme Conditions being, respectively, fulfilled or waived, as applicable, and thus the Ordinary Share Scheme and/or the CPS Scheme may or may not be implemented and the Ordinary Share Scheme and/or the CPS Scheme may or may not become effective. Shareholders and potential investors of the Company 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.**

**3. REASONS FOR AND BENEFITS OF THE PROPOSAL**

The principal activity of the Group is the operation of hypermarket stores in the PRC. All revenue from external customers is generated in the PRC and all the significant operating assets of the Group are located in the PRC. As at 30 June 2019, the Group operated 87 retail stores and three shopping centres under the brand name ‘Lotus’.

The Group made a profit of approximately RMB40.1 million for the six months ended 30 June 2019 (for the six months ended 30 June 2018: net profit of approximately RMB137.7 million). The decrease of approximately RMB97.6 million was mainly due to the impact from the adoption of HKFRS16 at 1 January 2019, which reduced the total profit by approximately RMB79.4 million. While continuing efforts are being made to expand store network, optimise merchandise and sales space, enhance relationship with suppliers and improve operation efficiency, the Group continues to face challenges to its business and the profitability of its operations.

In putting the Proposal forward, the Offeror has taken into account the following principal factors, as set out below:

**(1) Capital structure and financial position of the Group**

The Group’s consolidated statement of financial position as at 30 June 2019 showed limitations on the Group’s sources of funding. As at that date, the Group had:

- (i) net current liabilities of approximately RMB1.9 billions;

- (ii) United States dollar loans from its controlling shareholder equivalent to almost RMB1.0 billion, which are unsecured and expiring in December 2020; and
- (iii) approximately 11.3 billion Convertible Preference Shares in issue, almost all of which were held by the controlling shareholder, convertible into Ordinary Shares on a one-for-one basis (subject to public float requirements). Full conversion of the Convertible Preference Shares would approximately double the Ordinary Shares in issue.

These features are unusual for a public company and, taken overall, may limit the Group's options in satisfying its future funding requirements in a cost effective manner. The Proposal, once implemented, would simplify and strengthen the Group's financial position.

## **(2) Marketability and price performance of the Ordinary Shares**

There has not been an active market for the Ordinary Shares. In the last 180 trading days up to the Announcement Date, there was no trading in the Ordinary Shares on the Stock Exchange on 87 trading days. The average daily trading volume over the last 180 trading days up to the Announcement Date was approximately 0.37 million Ordinary Shares, representing just approximately 0.01% of the Ordinary Shares held by Ordinary Shareholders other than the Offeror, the Principal Offeror Concert Party and the Other Offeror Concert Parties, and the average daily turnover was approximately HK\$32,770, please refer to the section headed "Trading volume and liquidity of the Ordinary Shares" for further details. The market price of the Ordinary Shares has declined in 2018 and did not materially improve even during relevant periods of relative market strength such as the first quarter of 2019.

The Proposal provides the Scheme Ordinary Shareholders with an opportunity to realise their illiquid investment in the Company at a healthy premium over the prevailing marketing price and the net book value of the Company.

## **(3) Costs and expenses of maintaining the Company's listed status**

To maintain its listed status, the Company faces administrative and compliance burdens and related costs and expenses. Due to illiquidity and underperformance in the trading of the Ordinary Shares, the Company has difficulty raising funds through equity financing, and the Offeror believes the position is unlikely to improve significantly in the near term. As such, administrative and compliance costs and management resources associated with maintaining the Company's listing status are no longer justified.

Furthermore, following the implementation of the Proposal, the Offeror and the Company can make strategic decisions free from the pressure of market expectations, short-term profit visibility and share price fluctuation as a publicly listed company. The management of the Company can also utilise the resources which would otherwise go towards administrative, compliance and other listing-related matters on business operations of the Group.

Accordingly, the Offeror has decided to put forward the Proposal, in particular the Ordinary Share Scheme, to the Scheme Ordinary Shareholders on the basis of a cash consideration of HK\$0.11 per Scheme Ordinary Share cancelled. The Offeror considers that the Proposal provides an attractive opportunity to Scheme Ordinary Shareholders to realise their investment at a price which is substantially higher than the net book value per share by 57.1% based on the unaudited financial statements as of 30 June 2019 and higher than the recent average market prices, with premia in the range of 10.0% to 30.3% on the bases set out above. A fixed cash consideration avoids the illiquidity discount which is likely to arise if significant number of Ordinary Shareholders tried to sell in the market. The Company has not distributed any dividend since 1994 so the Scheme Ordinary Shareholders can reinvest the cash proceeds in income earning securities if they so wish. The Company does not expect to declare or distribute any dividends before the Effective Date.

Given the Company will apply for the withdrawal of listing of the Ordinary Shares on the Stock Exchange after the Ordinary Share Scheme becoming effective, the Offeror, pursuant to Rule 14 of the Takeovers Code, proposes to implement the CPS Scheme so that the Scheme CPS Holders can also realise their investments in the unlisted CPS on a similar price basis to the Ordinary Share Scheme if the CPS Scheme becomes effective.

#### **4. TOTAL CONSIDERATION AND FINANCIAL RESOURCES**

The Proposal will involve the cancellation of the Scheme Ordinary Shares at the Ordinary Share Cancellation Price of HK\$0.11 per Scheme Ordinary Share cancelled and the cancellation of the Scheme CPS at the CPS Cancellation Price of HK\$0.11 per Scheme CPS cancelled. As at the Latest Practicable Date, there are 11,019,072,390 Ordinary Shares and 3,671,509,764 CPS in issue, and there are 3,864,272,973 Scheme Ordinary Shares and 3,607,800 Scheme CPS in issue. Except for the Convertible Preference Shares, there are no outstanding warrants, derivatives or other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) issued by the Company that carry a right to subscribe for or which are convertible into Ordinary Shares.

Assuming no CPS are converted into Ordinary Shares before the Scheme Record Date, the amounts of cash required for the implementation of the Ordinary Share Scheme and the CPS Scheme are approximately HK\$425.1 million and approximately HK\$0.4 million respectively. If all the CPS (other than those held by the Offeror) are converted into Ordinary Shares before the Scheme Record Date, there will be a maximum of 3,867,880,773 Scheme Ordinary Shares subject to the Ordinary Share Scheme and the maximum amount of cash required for the implementation of the Ordinary Share Scheme is approximately HK\$425.5 million whereas no cash will be required for the CPS Scheme.

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

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



The Offeror intends to finance the cash required for the implementation of the Proposal from a loan facility. Somerley Capital, the financial adviser to the Offeror, is satisfied that sufficient financial resources are available to the Offeror for discharging its obligations in respect of the full implementation of the Proposal.

## 5. SHAREHOLDING STRUCTURE OF THE COMPANY

As at the Latest Practicable Date, the authorised share capital of the Company is HK\$940,000,000 divided into 34,000,000,000 Ordinary Shares, 2,000,000,000 Series A Convertible Preference Shares, 4,000,000,000 Series B Convertible Preference Shares, 4,500,000,000 CPS and 2,500,000,000 Series D Convertible Preference Shares, and as at the Latest Practicable Date the Company has 11,019,072,390 Ordinary Shares, 1,518,807,075 Series A Convertible Preference Shares, 3,897,110,334 Series B Convertible Preference Shares, 3,671,509,764 CPS and 2,211,382,609 Series D Convertible Preference Shares in issue.

The table below sets out the simplified shareholding structure of the Company (i) as at the Latest Practicable Date; and (ii) on the basis that both the Ordinary Share Scheme and the CPS Scheme become effective, immediately upon completion of the Proposal, assuming (a) no CPS are converted into Ordinary Shares before the Scheme Record Date; and (b) all the CPS (other than those held by the Offeror) are converted into Ordinary Shares before the Scheme Record Date:

Ordinary Shareholders and holders of Convertible Preference Shares	As at the Latest Practicable Date		Upon completion of the Proposal assuming no CPS are converted into Ordinary Shares before the Scheme Record Date		Upon completion of the Proposal assuming all the CPS (other than those held by the Offeror) are converted into Ordinary Shares before the Scheme Record Date	
	Number of Shares	%	Number of Shares	%	Number of Shares	%
<b><u>The Ordinary Shares</u></b>						
<b>Offeror and the parties acting in concert or presumed to be acting in concert with it</b>						
Offeror	6,788,319,021	61.61	10,652,591,994	96.67	10,656,199,794	96.68
Principal Offeror Concert Party (Note 1)	366,480,396	3.33	366,480,396	3.33	366,480,396	3.32
<b>Aggregate number of Ordinary Shares of the Offeror and the Principal Offeror Concert Party</b>	<b>7,154,799,417</b>	<b>64.94</b>	<b>11,019,072,390</b>	<b>100.00</b>	<b>11,022,680,190</b>	<b>100.00</b>
<b>Other Offeror Concert Parties</b>						
Mr. Soopakij Chearavanont (Note 2)	183,240,198	1.66	—	—	—	—
Mr. Narong Chearavanont (Note 2)	183,240,198	1.66	—	—	—	—
Mr. Suphachai Chearavanont (Note 2)	122,160,132	1.09	—	—	—	—
Mr. Chatchaval Jiaravanon (Note 3)	61,080,066	0.56	—	—	—	—
Mr. Kachorn Chiaravanont (Note 4)	61,080,066	0.56	—	—	—	—
Mr. Yang Xiaoping (Note 2)	183,240,198	1.66	—	—	—	—

Ordinary Shareholders and holders of Convertible Preference Shares	As at the Latest Practicable Date		Upon completion of the Proposal assuming no CPS are converted into Ordinary Shares before the Scheme Record Date		Upon completion of the Proposal assuming all the CPS (other than those held by the Offeror) are converted into Ordinary Shares before the Scheme Record Date	
	Number of Shares	%	Number of Shares	%	Number of Shares	%
Mr. Meth Jiaravanont (Note 2)	61,080,066	0.56	—	—	—	—
Mr. Umroong Sanphasitvong (Note 2)	61,080,066	0.56	—	—	—	—
Mr. Robert Ho Ping-Hsien (Note 5)	183,240,198	1.66	—	—	—	—
	1,099,441,188	9.97	—	—	—	—
<b>Aggregate number of Ordinary Shares of the Offeror, Principal Offeror Concert Party and Other Offeror Concert Parties</b>	8,254,240,605	74.91	11,019,072,390	100.00	11,022,680,190	100.00
Other Ordinary Shareholders	2,764,831,785	25.09	—	—	—	—
<b>Total number of Ordinary Shares</b>	<u>11,019,072,390</u>	<u>100.00</u>	<u>11,019,072,390</u>	<u>100.00</u>	<u>11,022,680,190</u>	<u>100.00</u>
<b>Scheme Ordinary Shares represent:</b>						
Other Offeror Concert Parties	1,099,441,188	9.97				
Other Ordinary Shareholders	2,764,831,785	25.09				
	<u>3,864,272,973</u>	<u>35.06</u>				
<b><u>Convertible Preference Shares</u></b>						
<b>CPS</b>						
Offeror	3,667,901,964	99.90	3,671,509,764	100.00	3,667,901,964	100.00
Other CPS Holders/Scheme CPS Holders	3,607,800	0.10	—	—	—	—
<b>Total number of CPS</b>	<u>3,671,509,764</u>	<u>100.00</u>	<u>3,671,509,764</u>	<u>100.00</u>	<u>3,667,901,964</u>	<u>100.00</u>
<b>Other Convertible Preference Shares</b>						
Offeror	7,627,300,018	100.00	7,627,300,018	100.00	7,627,300,018	100.00
Total number of other Convertible Preference Shares	<u>7,627,300,018</u>	<u>100.00</u>	<u>7,627,300,018</u>	<u>100.00</u>	<u>7,627,300,018</u>	<u>100.00</u>
<b>Aggregate number of Convertible Preference Shares</b>	<u>11,298,809,782</u>	<u>100.00</u>	<u>11,298,809,782</u>	<u>100.00</u>	<u>11,295,201,982</u>	<u>100.00</u>

## Notes:

- The Ordinary Shares are held by the Principal Offeror Concert Party which is wholly owned by Charoen Pokphand Holding Company Limited, which itself is owned as to 99.99% by Charoen Pokphand Group.

2. Each of Mr. Soopakij Chearavanont, Mr. Narong Chearavanont, Mr. Suphachai Chearavanont, Mr. Yang Xiaoping, Mr. Meth Jiaravanont and Mr. Umroong Sanphasitvong is an executive Director.
3. Mr. Chatchaval Jiaravanon is a close relative of one of the Offeror's directors.
4. Mr. Kachorn Chiaravanont is a close relative of a director of the Offeror's parent company.
5. Mr. Robert Ho Ping-Hsien is a director of the Offeror's parent company.
6. All percentages in the above table are approximations.

As at the Latest Practicable Date, other than a total of 11,298,809,782 Convertible Preference Shares, there are no options, warrants or convertible securities in respect of the Ordinary Shares held, controlled or directed by the Offeror and parties acting in concert with it or presumed to be acting in concert with it, or outstanding derivatives in respect of the Ordinary Shares entered into by the Offeror and parties acting in concert with it or presumed to be acting in concert with it. Save for the Convertible Preference Shares, the Company does not have in issue any warrants, options, derivatives, convertible securities or other securities convertible into Ordinary Shares as at the Latest Practicable Date.

#### **6. OFFEROR'S INTENTION REGARDING THE COMPANY**

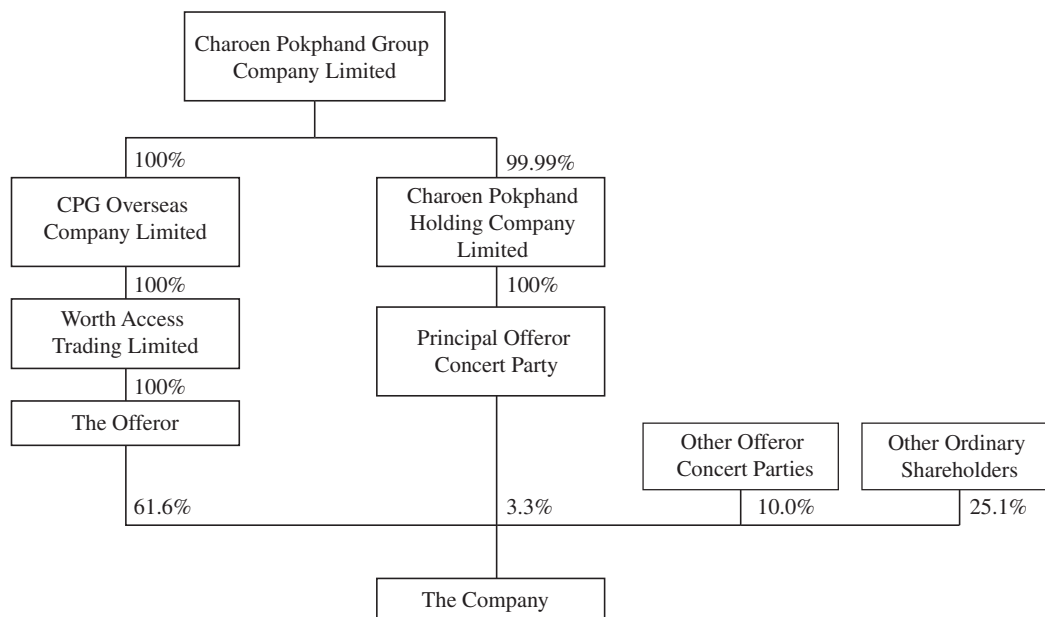
The Company is incorporated in the Cayman Islands with limited liability and the Company (including its predecessor) has been listed on the Main Board of the Stock Exchange since 27 March 1981 with the stock code 121. The Group is principally engaged in the operation of large scale hypermarket stores located in the northern, southern and eastern parts of China.

Following implementation of the Proposal, the Offeror and Charoen Pokphand Group intend that the Company should continue carrying on its current business and do not intend to make any major changes to the current operations, or to discontinue the employment of the employees of the Group nor do they have any plans to redeploy any of the fixed assets of the Group after implementation of the Proposal. The Offeror and Charoen Pokphand Group will continue to monitor the Group's performance and implement appropriate strategies for the Group and its business in light of the challenging environment for retail businesses in the PRC.

#### **7. INFORMATION ON THE OFFEROR**

The Offeror is a company incorporated in the British Virgin Islands which is indirectly and wholly-owned by Charoen Pokphand Group, the ultimate controlling shareholder of the Company. Charoen Pokphand Group is the holding company of a group of companies which is a leading conglomerate in Asia with over 90 years of operating experience in various industries including agro-industry & food, retail and telecom. The principal activity of the Offeror is investment holding.

Set out below is the shareholding structure of the Company as at the Latest Practicable Date:



Accordingly, Worth Access Trading Limited, CPG Overseas Company Limited, Charoen Pokphand Group, Charoen Pokphand Holding Company Limited and the Principal Offeror Concert Party are parties acting in concert with the Offeror under class (1) of the definition of “acting in concert” in the Takeovers Code.

As at the Latest Practicable Date, the directors of the Offeror are Mr. Dhanin Chearavanont, Mr. Sumet Jiaravanon, Mr. Min Tianworn, Mr. Thirayut Phitya-Isarakul and Mr. Veeravat Kanchanadul, who are presumed to be acting in concert with the Offeror under class (6) of the definition of “acting in concert” in the Takeovers Code.

## 8. INDEPENDENT BOARD COMMITTEE

An Independent Board Committee comprising all of the independent non-executive Directors has been established by the Board to make a recommendation to the Independent Ordinary Shareholders and the Independent CPS Holders as to whether the terms of the Ordinary Share Scheme and the CPS Scheme (as the case may be) are, or are not, fair and reasonable and as to voting.

The executive Directors of the Company, except Mr. Li Wen Hai, who have or may have a material interest in the Proposal and have not participated in any vote, will continue to abstain from voting at meetings of the Board in relation to the Proposal, the Ordinary Share Scheme and the CPS Scheme. Mr. Li Wen Hai, being the only executive Director of the Company who is not required to abstain from voting, believes that the terms of the Proposal, the Ordinary Share Scheme and/or the CPS Scheme are fair and reasonable and in the interests of the Scheme Ordinary Shareholders and the Scheme CPS Holders respectively. The Independent Board Committee, comprising all of the independent non-executive Directors of the Company, has given its recommendation as set out in Part V of this Scheme Document after taking into account the advice of the Independent Financial Adviser.

The Independent Ordinary Shareholders and the Independent CPS Holders are reminded to carefully read this Scheme Document, including the letter of advice from the Independent Financial Adviser to the Independent Board Committee set out in Part VI of this Scheme Document before making a decision.

#### **9. INDEPENDENT FINANCIAL ADVISER TO THE INDEPENDENT BOARD COMMITTEE**

The Independent Financial Adviser has been appointed (with the approval of the Independent Board Committee) to advise the Independent Board Committee in connection with the Proposal, the Ordinary Share Scheme and the CPS Scheme. The full text of the letter from the Independent Financial Adviser is set out in Part VI of this Scheme Document.

#### **10. WITHDRAWAL OF LISTING OF ORDINARY SHARES**

Upon the Ordinary Share Scheme becoming effective, all Scheme Ordinary Shares will be cancelled and the share certificates for the Scheme Ordinary 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 Ordinary Shares on the Stock Exchange immediately following the Ordinary Share Scheme becoming effective in accordance with Rule 6.15(2) of the Listing Rules. The Ordinary Shareholders will be notified by way of an announcement of the exact date of the last day for dealing in the Ordinary Shares and on which the Ordinary Share Scheme and the withdrawal of the listing of the Ordinary Shares on the Stock Exchange will become effective. A detailed timetable of the Ordinary Share Scheme is set out in Part III of this Scheme Document, which contains further details of the Ordinary Share Scheme.

The Company will be privatised by way of two schemes of arrangement (both under section 86 of the Companies Law of the Cayman Islands) in compliance with the Takeovers Code and all the relevant requirements, and it is the Company's intention not to retain its listing on the Stock Exchange after implementation of the Proposal.

#### **11. IF THE ORDINARY SHARE SCHEME AND/OR THE CPS SCHEME IS NOT APPROVED OR OTHERWISE LAPSES**

Subject to the requirements of the Takeovers Code, the Ordinary Share Scheme will lapse if any of the Ordinary Share Scheme Conditions has not been fulfilled or waived, as applicable, on or before the Long Stop Date. The listing of the Ordinary Shares on the Stock Exchange will not be withdrawn if the Ordinary Share Scheme does not become effective.

If the Ordinary Share Scheme is not approved or otherwise lapses, there are restrictions under the Takeovers Code on making subsequent offers, to the effect that neither the Offeror 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 Ordinary Share Scheme is not approved or otherwise lapses, announce an offer or possible offer for the Company, except with the consent of the Executive.

Subject to the requirements of the Takeovers Code, the CPS Scheme will lapse if any of the CPS Scheme Conditions has not been fulfilled or waived, as applicable, on or before the Long Stop Date.

If the CPS Scheme is not approved or otherwise lapses, there are restrictions under the Takeovers Code on making subsequent offers, to the effect that neither the Offeror 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 CPS Scheme is not approved or otherwise lapses, announce an offer or possible offer for the Company, except with the consent of the Executive.

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

## **12. OVERSEAS SCHEME ORDINARY SHAREHOLDERS AND SCHEME CPS HOLDERS**

The making and implementation of the Proposal to Scheme Ordinary Shareholders and Scheme CPS Holders who are not resident in Hong Kong may be subject to the laws of the relevant jurisdictions in which such Scheme Ordinary Shareholders and Scheme CPS Holders are located. Such Scheme Ordinary Shareholders and Scheme CPS Holders should inform themselves about and observe any applicable legal, tax or regulatory requirements. It is the responsibility of any overseas Scheme Ordinary Shareholders and Scheme CPS Holders wishing to take any action in relation to the Proposal 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 other necessary formalities and the payment of any issue, transfer or other taxes due in such jurisdiction.

Scheme Ordinary Shareholders and Scheme CPS Holders are recommended to consult their own professional advisers if they are in any doubt as to the taxation implications of accepting the Proposal. It is emphasized that none of the Offeror, the Company, parties acting in concert with them or presumed to be acting in concert with them and their respective advisers or any of their respective directors, officers or associates or any other person involved in the Proposal accepts any responsibility whatsoever for any taxation effects on, or liabilities of, any persons as a result of their acceptance or rejection of the Proposal.

## **13. SCHEME ORDINARY SHARES, SCHEME CPS, ORDINARY SHARE COURT MEETING, CPS COURT MEETING, ORDINARY SHARE EGM AND CPS EGM**

As at the Latest Practicable Date, the Offeror, the Principal Offeror Concert Party and the Other Offeror Concert Parties hold an aggregate of 8,254,240,605 Ordinary Shares representing approximately 74.91% of the total number of issued Ordinary Shares in the share capital of the Company. The Ordinary Shares held by the Offeror and the Principal Offeror Party (being 7,154,799,417 Ordinary Shares representing approximately 64.94% of the total number of issued an aggregate of Ordinary Shares in the share capital of the Company) will not constitute Scheme Ordinary Shares. The Offeror, the Principal Offeror Concert Party and the Other Offeror Concert Parties will not vote on the Ordinary Share Scheme at the Ordinary Share Court Meeting.

As at the Latest Practicable Date, the Offeror holds an aggregate of 3,667,901,964 CPS representing approximately 99.90% of the total number of issued CPS in the share capital of the Company. Such CPS will not constitute Scheme CPS and the Offeror will not vote on the CPS Scheme at the CPS Court Meeting.

Each of the Offeror Concert Parties has undertaken to the Grand Court that it/he will be bound by the Ordinary Share Scheme and the CPS Scheme, so as to ensure that it/he will comply with and be subject to the terms and conditions of the Ordinary Share Scheme and the CPS Scheme.

Somerley Capital is presumed to be acting in concert with the Offeror under class (5) of the definition of “acting in concert” in the Takeovers Code. As at the Latest Practicable Date, no Shares are owned, controlled or directed by Somerley Capital.

All Ordinary Shareholders will be entitled to attend the Ordinary Share EGM and vote on, among other things, (i) a special resolution to approve and give effect to the reduction of the number of issued Ordinary Shares in the share capital of the Company by cancelling and extinguishing the Scheme Ordinary Shares, (ii) an ordinary resolution to immediately thereafter increase the number of issued Ordinary Shares in the share capital of the Company to the amount prior to the cancellation of the Scheme Ordinary Shares and apply the reserve created as a result of the aforesaid cancellation of the Scheme Ordinary Shares to pay up in full at par such number of new Ordinary Shares as is equal to the number of Scheme Ordinary Shares cancelled as a result of the Ordinary Share Scheme, credited as fully paid, for issuance to the Offeror, (iii) a special resolution to approve and give effect to the reduction of the number of issued CPS in the share capital of the Company by cancelling and extinguishing the Scheme CPS, and (iv) an ordinary resolution to immediately thereafter increase the number of issued CPS in the share capital of the Company to the amount prior to the cancellation of the Scheme CPS and apply the reserve created as a result of the aforesaid cancellation of the Scheme CPS to pay up in full at par such number of new CPS as is equal to the number of Scheme CPS cancelled as a result of the CPS Scheme, credited as fully paid, for issuance to the Offeror.

All CPS Holders will be entitled to attend the CPS EGM and vote on, among other things, (i) a special resolution to approve and give effect to the reduction of the number of issued CPS in the share capital of the Company by cancelling and extinguishing the Scheme CPS, and (ii) an ordinary resolution to immediately thereafter increase the number of issued CPS in the share capital of the Company to the amount prior to the cancellation of the Scheme CPS and apply the reserve created as a result of the aforesaid cancellation of the Scheme CPS to pay up in full at par such number of new CPS as is equal to the number of Scheme CPS cancelled as a result of the CPS Scheme, credited as fully paid, for issuance to the Offeror.

The Offeror and the Principal Offeror Concert Party have undertaken that if the Ordinary Share Scheme and the CPS Scheme are approved at the Ordinary Share Court Meeting and CPS Court Meeting (as the case may be), they will cast the votes in respect of those Ordinary Shares and the CPS held by them in favour of the resolutions to be proposed at the Ordinary Share EGM and the CPS EGM (as the case may be).

**14. COSTS OF THE ORDINARY SHARE SCHEME AND THE CPS SCHEME**

In light of the recommendation of the Independent Board Committee as set out in Part V of this Scheme Document and the recommendation of the Independent Financial Adviser as set out in Part VI of this Scheme Document, Rule 2.3 of the Takeovers Code is not applicable. The Offeror and the Company have agreed that all costs, charges and expenses of the advisers and counsels appointed by the Company, including the Independent Financial Adviser, will be borne by the Company, all costs, charges and expenses of the advisers and counsels appointed by Offeror will be borne by the Offeror, and other costs, charges and expenses of the Proposal incurred by each of the Offeror and the Company will be borne by them respectively.

**15. GENERAL**

The Offeror has appointed Somerley Capital as its financial adviser in connection with the Proposal.

There are no arrangements (whether by way of option, indemnity or otherwise) in relation to Ordinary Shares and/or the CPS between the Offeror and parties acting in concert with it or presumed to be acting in concert with it and any other person which might be material to the Proposal.

There are no agreements or arrangements to which the Offeror is a party which relate to the circumstances in which it may or may not invoke or seek to invoke an Ordinary Share Scheme Condition and/or a CPS Scheme Condition.

The Offeror and parties acting in concert with it or presumed to be acting in concert with it have not borrowed or lent any Ordinary Shares, Convertible Preference Shares or any other securities of the Company as at the Latest Practicable Date.

As at the Latest Practicable Date, there are no options, warrants or convertible securities in respect of the Ordinary Shares held, controlled or directed by the Offeror and parties acting in concert with it or presumed to be acting in concert with it (other than 1,518,807,075 Series A Convertible Preference Shares, 3,897,110,334 Series B Convertible Preference Shares, 3,667,901,964 CPS and 2,211,382,609 Series D Convertible Preference Shares held by the Offeror), or outstanding derivatives in respect of the Ordinary Shares entered into by the Offeror and parties acting in concert with it or presumed to be acting in concert with it. No irrevocable commitment to vote for or against the Ordinary Share Scheme and/or the CPS Scheme has been received by the Offeror and parties acting in concert with it or presumed to be acting in concert with it, as at the Latest Practicable Date.

As at the Latest Practicable Date, there is no understanding, arrangement or agreement or special deal between any Shareholders and the Offeror and any party acting in concert with it. The Company confirms that, as at the Latest Practicable Date, there is no understanding, arrangement or agreement or special deal between any Shareholders on the one hand, and the Company, its subsidiaries or associated companies on the other hand.



**16. COURT MEETINGS AND EGMS**

In accordance with the direction of the Cayman Islands Grand Court, the Ordinary Share Court Meeting will be held for the purpose of considering and, if thought fit, passing the resolution to approve the Ordinary Share Scheme (with or without modification(s)). All Independent Ordinary Shareholders whose names appear on the register of members of the Company as at the Meeting Record Date will be entitled to attend and vote on the Ordinary Share Scheme at the Ordinary Share Court Meeting in person or by proxy. The Offeror, the Principal Offeror Concert Party and the Other Offeror Concert Parties will not vote on the Ordinary Share Scheme at the Ordinary Share Court Meeting.

In accordance with the direction of the Cayman Islands Grand Court, the CPS Court Meeting will be held for the purpose of considering and, if thought fit, passing the resolution to approve the CPS Scheme (with or without modification(s)). All Independent CPS Shareholders whose names appear on the register of members of the Company as at the Meeting Record Date will be entitled to attend and vote on the CPS Scheme at the CPS Court Meeting in person or by proxy. The Offeror will not vote on the CPS Scheme at the CPS Court Meeting.

In accordance with the direction from the Grand Court, HKSCC Nominees Limited shall be permitted to vote once for and once against the Ordinary Share Scheme and/or the CPS Scheme in accordance with the instructions received by it from the Investor Participants and other CCASS Participants. For the purpose of calculating the “majority in number”, HKSCC Nominees Limited shall be counted as a multi-headed Shareholder voting once “for” and once “against” the Ordinary Share Scheme or the CPS Scheme (as the case may be). The number of votes cast in favour of the Ordinary Share Scheme or the CPS Scheme (as the case may be) and the number of CCASS Participants on whose instructions they are cast and the number of votes cast against the Ordinary Share Scheme or the CPS Scheme (as the case may be) and the number of CCASS Participants on whose instructions they are cast will be disclosed to the Grand Court and may be taken into account in deciding whether or not the Grand Court should exercise its discretion to sanction the Ordinary Share Scheme or the CPS Scheme (as the case may be).

In accordance with the Companies Law, the “75% in value” requirement will be met if the total value of the Shares being voted in favour of the Ordinary Share Scheme or the CPS Scheme (as the case may be) is at least 75% of the total value of the Shares voted at the relevant Court Meeting. In accordance with the Companies Law, the “majority in number” requirement will be met if the number of the Independent Ordinary Shareholders/Independent CPS Holders (as the case may be) voting in favour of the Ordinary Share Scheme/CPS Scheme (as the case may be) exceeds the number of the Independent Ordinary Shareholders/Independent CPS Holders (as the case may be) voting against the Ordinary Share Scheme/CPS Scheme (as the case may be). For the purpose of calculating the “majority in number” requirement, the number of the Independent Ordinary Shareholders/Independent CPS Holders (as the case may be), present and voting in person or by proxy, will be counted.

The Ordinary Share EGM will be held as soon as after the Ordinary Share Court Meeting has been concluded or adjourned for the purpose of considering and, if thought fit, passing resolutions to approve, among other things, the reduction of the number of issued Ordinary Shares in the share capital of the Company by cancelling and extinguishing all Scheme Ordinary Shares. All Ordinary Shareholders will be entitled to attend and vote in person or by proxy on such resolutions at the Ordinary Share EGM.

The CPS EGM will be held as soon as after the CPS Court Meeting has been concluded or adjourned for the purpose of considering and, if thought fit, passing resolutions to approve, among other things, the reduction of the number of issued CPS in the share capital of the Company by cancelling and extinguishing all Scheme CPS. All CPS Holders will be entitled to attend and vote in person or by proxy on such resolutions at the CPS EGM.

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

At the relevant EGM, the special and ordinary resolutions will be put to the vote by way of poll as required under Rule 13.39(4) of the Listing Rules.

Announcement(s) will be made by the Company and the Offeror in relation to the results of the Court Meetings and EGMs in accordance with Rule 19.1 of the Takeovers Code to the extent applicable. Information on the number of votes cast for and the number of votes cast against the relevant Ordinary Share Scheme or the CPS Scheme and the number of CCASS Participants on whose instructions they are cast will be included in such announcement(s).

Notices of the Ordinary Share Court Meeting and the Ordinary Share EGM are set out in Appendix IV and Appendix V of this Scheme Document. Notices of the CPS Court Meeting and the CPS EGM are set out in Appendix VII and Appendix VIII of this Scheme Document.

## **17. ACTIONS TO BE TAKEN BY THE ORDINARY SHAREHOLDERS AND THE CPS HOLDERS**

Your attention is drawn to the section headed “Actions to be taken — Actions to be taken by the Ordinary Shareholders and the CPS Holders” set out in Part II of this Scheme Document.

## **18. RECOMMENDATIONS**

Able Capital Partners Limited has been appointed by the Board (with approval of the Independent Board Committee) as the Independent Financial Adviser to advise the Independent Board Committee in connection with the Proposal. The text of the letter of advice from the Independent Financial Adviser containing its recommendation and the principal factors and reasons that it has taken into consideration in arriving at its recommendation is set out in Part VI of this Scheme Document. We would advise you to read this letter and the letter of advice from the Independent Financial Adviser carefully before you take any action in respect of the Proposal.

The Independent Board Committee has considered the terms of the Proposal and taken into account the advice of the Independent Financial Adviser, in particular the factors, reasons and recommendation as set out in the letter from the Independent Financial Adviser in Part VI of this Scheme Document. The Independent Board Committee's recommendation is set out in Part V of this Scheme Document.

The executive Directors of the Company, except Mr. Li Wen Hai, who have or may have a material interest in the Proposal and have not participated in any vote, will continue to abstain from voting at meetings of the Board in relation to the Proposal, the Ordinary Share Scheme and the CPS Scheme. Mr. Li Wen Hai, being the only executive Director of the Company who is not required to abstain from voting, believes that the terms of the Proposal, the Ordinary Share Scheme and/or the CPS Scheme are fair and reasonable and in the interests of the Scheme Ordinary Shareholders and the Scheme CPS Holders respectively.

#### **19. TAXATION**

Your attention is drawn to the paragraph headed "20. Taxation" as set out in Part VII of this Scheme Document.

It is emphasized that none of the Company, the Offeror, parties acting in concert with them or presumed to be acting in concert with them and their respective professional advisers or any of their respective directors or associates or any other person involved in the Proposal accepts responsibility for any tax or other effects on, or liabilities of, any person or persons as a result of the implementation or otherwise of the Proposal.

#### **20. FURTHER INFORMATION**

You are urged to read carefully the letter from the Independent Board Committee, the letter from the Independent Financial Adviser, the Explanatory Statement, the Ordinary Share Scheme, the CPS Scheme and the notices of the Court Meetings and the EGM contained in this Scheme Document and the other appendices to this Scheme Document.

Yours faithfully,  
**By order of the Board**  
**Soopakij Chearavanont**  
*Chairman*



**C.P. Lotus Corporation**

卜蜂蓮花有限公司

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 00121)**

*Executive Directors:*

Mr. Soopakij Chearavanont (*Chairman*)

Mr. Li Wen Hai (*Executive Chairman*)

Mr. Narong Chearavanont (*Vice Chairman*)

Mr. Michael Ross (*Vice Chairman*)

Mr. Yang Xiaoping (*Vice Chairman*)

Mr. Meth Jiaravanont

Mr. Suphachai Chearavanont

Mr. Umroong Sanphasitvong

*Independent non-executive Directors:*

Mr. Viroj Sangsrit

Mr. Songkitti Jaggabatara

Mr. Itthaporn Subhawong

Mr. Prasobsook Boondech

Mr. Cheng Yuk Wo

*Registered office:*

Cricket Square

Hutchins Drive

P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

*Head office and principal*

*place of business in Hong Kong*

21st Floor

Far East Finance Centre

16 Harcourt Road

Hong Kong

11 September 2019

*To the Shareholders*

Dear Sir or Madam,

**(1) PROPOSED PRIVATISATION OF C.P. LOTUS CORPORATION  
BY C.P. HOLDING (BVI) INVESTMENT COMPANY LIMITED  
BY WAY OF TWO SCHEMES OF ARRANGEMENT  
(BOTH UNDER SECTION 86 OF THE COMPANIES LAW  
OF THE CAYMAN ISLANDS)  
AND  
(2) PROPOSED WITHDRAWAL OF LISTING**

We refer to the scheme document (the “**Scheme Document**”) dated 11 September 2019 jointly issued by the Company and the Offeror in relation to the Proposal, of which this letter forms part. Unless the context requires otherwise, terms used in this letter shall have the same meaning as given to them in the Scheme Document.

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**PART V LETTER FROM THE INDEPENDENT BOARD COMMITTEE**

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We have been appointed by the Board as the Independent Board Committee to advise the Independent Ordinary Shareholders and the Independent CPS Holders in respect of the Proposal.

Able Capital Partners Limited has been appointed, with our approval, as the Independent Financial Adviser in respect of the Proposal.

We wish to draw your attention to (a) the letter from the Board as set out in Part IV of the Scheme Document; (b) the letter from the Independent Financial Adviser as set out in Part VI of the Scheme Document which sets out the factors and reasons taken into account by the Independent Financial Adviser in arriving at its recommendations; and (c) the Explanatory Statement as set out in Part VII of the Scheme Document.

Having considered the terms of the Proposal and having taken into account the advice of the Independent Financial Adviser, in particular the factors, reasons and recommendations as set out in the letter from the Independent Financial Adviser, we consider the terms of the Proposal are fair and reasonable so far as the Independent Ordinary Shareholders and the Independent CPS Holders are concerned.

Accordingly, we recommend:

- (1) the Independent Ordinary Shareholders to vote in favour of the resolution to approve the Ordinary Share Scheme at the Ordinary Share Court Meeting;
- (2) the Independent CPS Holders to vote in favour of the resolution to approve the CPS Scheme at the CPS Court Meeting;
- (3) the Ordinary Shareholders to vote in favour of (i) a special resolution to approve and give effect to the reduction of the number of issued Ordinary Shares in the share capital of the Company by cancelling and extinguishing the Scheme Ordinary Shares, (ii) an ordinary resolution to immediately thereafter increase the number of issued Ordinary Shares in the share capital of the Company to the amount prior to the cancellation of the Scheme Ordinary Shares and apply the reserve created as a result of the aforesaid cancellation of the Scheme Ordinary Shares to pay up in full at par such number of new Ordinary Shares as is equal to the number of Scheme Ordinary Shares cancelled as a result of the Ordinary Share Scheme, credited as fully paid, for issuance to the Offeror, (iii) a special resolution to approve and give effect to the reduction of the number of issued CPS in the share capital of the Company by cancelling and extinguishing the Scheme CPS, (iv) an ordinary resolution to immediately thereafter increase the number of issued CPS in the share capital of the Company to the amount prior to the cancellation of the Scheme CPS and apply the reserve created as a result of the aforesaid cancellation of the Scheme CPS to pay up in full at par such number of new CPS as is equal to the number of Scheme CPS cancelled as a result of the CPS Scheme, credited as fully paid, for issuance to the Offeror, and (v) a special resolution for the withdrawal of listing of the Ordinary Shares upon the Ordinary Share Scheme becoming effective; and

- (4) the CPS Holders to vote in favour of (i) a special resolution to approve and give effect to the reduction of the number of issued CPS in the share capital of the Company by cancelling and extinguishing the Scheme CPS, and (ii) an ordinary resolution to immediately thereafter increase the number of issued CPS in the share capital of the Company to the amount prior to the cancellation of the Scheme CPS and apply the reserve created as a result of the aforesaid cancellation of the Scheme CPS to pay up in full at par such number of new CPS as is equal to the number of Scheme CPS cancelled as a result of the CPS Scheme, credited as fully paid, for issuance to the Offeror.

Yours faithfully,

**Independent Board Committee**

**Mr. Viroj Sangsnit**

*Independent  
non-executive  
Director*

**Mr. Songkitti  
Jaggabatara**

*Independent  
non-executive  
Director*

**Mr. Itthaporn  
Subhawong**

*Independent  
non-executive  
Director*

**Mr. Prasobsook  
Boondech**

*Independent  
non-executive  
Director*

**Mr. Cheng Yuk Wo**

*Independent  
non-executive  
Director*

*The following is the full text of a letter of advice from Able Capital Partners Limited to the Independent Board Committee, Independent Ordinary Shareholders and the Independent CPS Holders in relation to the Proposal, which has been prepared for the purpose of inclusion in this Scheme Document.*



**ABLE CAPITAL PARTNERS LIMITED**  
Unit 2201, 22nd Floor  
Cosco Tower  
183 Queen's Road Central  
Hong Kong

11 September 2019

*To: The Independent Board Committee, the Independent Ordinary Shareholders and the Independent CPS Holders of C.P. Lotus Corporation*

Dear Sirs,

**(1) PROPOSED PRIVATISATION OF C.P. LOTUS CORPORATION  
BY C.P. HOLDING (BVI) INVESTMENT COMPANY LIMITED  
BY WAY OF TWO SCHEMES OF ARRANGEMENT  
(BOTH UNDER SECTION 86 OF THE COMPANIES LAW  
OF THE CAYMAN ISLANDS)  
AND  
(2) PROPOSED WITHDRAWAL OF LISTING**

**I. INTRODUCTION**

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee, the Independent Ordinary Shareholders and the Independent CPS Holders in respect of the proposed privatisation of the Company by C.P. Holding (BVI) Investment Company Limited by way of two schemes of arrangement (both under Section 86 of the Companies Law of the Cayman Islands) and proposed withdrawal of listing, details of which are set out in the "Part IV - Letter from the Board" (the "Letter from the Board") contained in the Scheme Document dated 11 September 2019, of which this letter forms part. Terms used in this letter shall have the same meaning as those defined in the Scheme Document unless the context requires otherwise.

On 18 June 2019, the Offeror and the Company jointly announced that the Offeror requested the Board to put forward the Proposal for the privatisation of the Company, which will involve (i) the Ordinary Share Scheme to cancel the Scheme Ordinary Shares and the payment of the Ordinary Share Cancellation Price to Scheme Ordinary Shareholders, and the withdrawal of the listing of the Ordinary Shares on the Stock Exchange; and (ii) the CPS Scheme to cancel the Scheme CPS and the payment of the CPS Cancellation Price to Scheme CPS Holders. Each of the Ordinary Share Scheme and the CPS Scheme will be carried out by way of a scheme of arrangement under Section 86 of the Companies Law.

An Independent Board Committee comprising Mr. Viroj Sangsrit, Mr. Songkitti Jaggabatara, Mr. Itthaporn Subhawong, Mr. Prasobsook Boondech and Mr. Cheng Yuk Wo, each an independent non-executive director of the Company, has been established for the purpose of making a recommendation to the Independent Ordinary Shareholders and the Independent CPS Holders as to whether the terms of the Proposal, the Ordinary Share Scheme and the CPS Scheme are, or are not, fair and reasonable and as to voting. The executive directors of the Company, except Mr. Li Wen Hai, who have or may have a material interest in the Proposal and have not participated in any vote, will continue to abstain from voting at meetings of the Board in relation to the Proposal, the Ordinary Share Scheme and the CPS Scheme.

We, Able Capital Partners Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee in connection with the Proposal, the Ordinary Share Scheme and the CPS Scheme and such appointment has been approved by the Independent Board Committee.

We are not associated with the Company, the Offeror or any party acting, or presumed to be acting, in concert with any of them and, accordingly, are considered eligible to give independent advice on the Proposal, the Ordinary Share Scheme and the CPS Scheme. Apart from normal professional fees paid or payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company, the Offeror or any party acting, or presumed to be acting, in concert with any of them.

## **II. BASIS OF OUR OPINION**

In formulating our opinion, we have relied on the statements, information, opinions and representations contained or referred to in the Scheme Document and/or provided to us by the Company, the Directors and the management of the Company (the “Management”). We have assumed that all views, opinions and statements of intention provided by the Directors and the Management have been arrived at after due and careful enquiry. We have reviewed, among other things, the annual reports of the Company for each of the two years ended 31 December 2017 and 31 December 2018, the interim results announcement of the Company for the six months ended 30 June 2019 (the “2019 Interim Results Announcement”), the trading performance of the Ordinary Shares on the Stock Exchange and information set out in the Scheme Document. We have also discussed with the Directors the “Statement of Material Change” and the basis on which it is made, as set out in paragraph 5 of Appendix I to the Scheme Document. The Directors have confirmed to us that no material facts have been withheld or omitted from the information supplied and opinions expressed. We consider that the information and documents we have received is sufficient for us to reach an informed view and to provide a reasonable basis for our opinion set out in this letter. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any facts or circumstances which would render the information provided and representations made to us untrue, inaccurate or misleading. We have not, however, carried out any independent verification of the information provided, nor have we conducted any form of in-depth investigation into the businesses, affairs, operations, financial position, plans, projections or future prospects of the Group, the Offeror or any of their respective associates or any party acting, or presumed to be acting, in concert with any of them. Our opinion is necessarily based on the financial, economic, market and other conditions in effect, and the information made available to us, as at the Latest Practicable Date.



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**PART VI LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

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We have also assumed that all statements, information, opinions and representations contained or referred to in the Scheme Document and/or provided to us were true, accurate and complete in all respects at the time they were made and at the date of the Scheme Document and will continue to be true up to the Effective Date in accordance with Rule 9.1 of the Takeovers Code. Shareholders will be informed by us as soon as practicable if we become aware of any material change to the information contained or referred to herein throughout the offer period.

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

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

### **III. PRINCIPAL TERMS OF THE PROPOSAL**

On 18 June 2019, the Offeror requested the Board to put forward the Proposal for the privatisation of the Company, which will involve (i) the Ordinary Share Scheme to cancel the Scheme Ordinary Shares and the payment of the Ordinary Share Cancellation Price to Scheme Ordinary Shareholders, and the withdrawal of the listing of the Ordinary Shares on the Stock Exchange; and (ii) the CPS Scheme to cancel the Scheme CPS and the payment of the CPS Cancellation Price to Scheme CPS Holders. Each of the Ordinary Share Scheme and the CPS Scheme will be carried out by way of a scheme of arrangement under Section 86 of the Companies Law. The implementation of the Ordinary Share Scheme is not conditional on the implementation of the CPS Scheme but the CPS Scheme will only be implemented upon the Ordinary Share Scheme becoming unconditional.

If both the Ordinary Share Scheme and the CPS Scheme are approved and the Proposal is implemented, the share capital of the Company will, on the effective date of the Ordinary Share Scheme and the CPS Scheme, be reduced by cancelling and extinguishing the Scheme Ordinary Shares and the Scheme CPS. Upon such reduction, the share capital of the Company will be increased to its former amount by the issuance at par to the Offeror, credited as fully paid, of the aggregate number of Ordinary Shares and CPS as is equal to the number of Scheme Ordinary Shares and Scheme CPS cancelled respectively. 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 Ordinary Shares and new CPS so issued, credited as fully paid, to the Offeror. If only the Ordinary Share Scheme becomes unconditional and implemented, there will not be cancellation of the Scheme CPS and issuance of new CPS.

Details of the shareholding structure of the Company (i) as at the Latest Practicable Date; and (ii) on the basis that both the Ordinary Share Scheme and the CPS Scheme become effective, immediately upon completion of the Proposal, is set out in the Letter from the Board.

**1.    The Ordinary Share Scheme**

Under the Ordinary Share Scheme, the Scheme Ordinary Shares will be cancelled and, in consideration thereof, each Scheme Ordinary Shareholder will be entitled to receive the Ordinary Share Cancellation Price, being HK\$0.11 in cash for each Scheme Ordinary Share cancelled. The Ordinary Share Cancellation Price will not be increased, and the Offeror does not reserve the right to do so.

The total consideration payable to the Scheme Ordinary Shareholders for the Scheme Ordinary Shares cancelled will be paid by the Offeror.

The Ordinary Share Scheme will become effective and binding on the Offeror, the Company and the Scheme Ordinary Shareholders, subject to the fulfilment or waiver (as applicable) of the Ordinary Share Scheme Conditions on or before the Long Stop Date, failing which the Ordinary Share Scheme will lapse and the listing of the Ordinary Shares on the Stock Exchange will not be withdrawn. Details of the Conditions are set out in the section headed “Ordinary Share Scheme Conditions” in the Scheme Document.

As at the Latest Practicable Date, none of the Ordinary Share Scheme Conditions have been fulfilled or waived.

**2.    The CPS Scheme**

Under the CPS Scheme, the Scheme CPS will be cancelled and, in consideration thereof, each Scheme CPS Holder will be entitled to receive the CPS Cancellation Price, being HK\$0.11 in cash for each Scheme CPS cancelled. The CPS Cancellation Price will not be increased, and the Offeror does not reserve the right to do so.

The total consideration payable to the Scheme CPS Holders for the Scheme CPS cancelled will be payable by the Offeror.

The CPS Scheme will become effective and binding on the Offeror, the Company and the Scheme CPS Holders, subject to the fulfilment or waiver (as applicable) of the CPS Scheme Conditions on or before the Long Stop Date, failing which the CPS Scheme will lapse. Details of the Conditions are set out in the section headed “CPS Scheme Conditions” in the Scheme Document.

As at the Latest Practicable Date, none of the CPS Scheme Conditions have been fulfilled or waived.

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## **PART VI LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

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Further details of the terms of the Ordinary Share Scheme and the CPS Scheme are contained in the Letter from Board and the section headed “Part VII - Explanatory Statement” in the Scheme Document. The Independent Ordinary Shareholders and the Independent CPS Holders are urged to read the relevant sections in the Scheme Document in full.

The CPS, which are unlisted and non-voting, are convertible on a one-to-one basis into Ordinary Shares. The CPS Holders are entitled to receive the same dividends as the Ordinary Shareholders.

Save for a total of 11,298,809,782 Convertible Preference Shares (comprising 1,518,807,075 Series A Convertible Preference Shares, 3,897,110,334 Series B Convertible Preference Shares, 3,671,509,764 CPS and 2,211,382,609 Series D Convertible Preference Shares), the Company does not have in issue any warrants, options, derivatives, convertible securities or other securities convertible into Ordinary Shares as at the Latest Practicable Date.

### **IV. PRINCIPAL FACTORS AND REASONS CONSIDERED**

In arriving at our opinion and recommendation in respect of the Proposal, we have considered the following principal factors and reasons:

#### **1. Background information of the Group**

The Group is one of the leading retail operators in the PRC primarily engaged in the operation of hypermarkets. The Group opened its first hypermarket in 1997 and as at 30 June 2019, owns and operates 87 retail stores and three shopping centres. The stores operated under the brand name “Lotus” and are located primarily along the northern, eastern and southern regions of the PRC. The stores provide a large assortment of quality merchandise, including fresh food, health supplement, beverage and liquor, household products, hardware, sporting goods and toys, stationery, electronics appliances, apparel and imported products.

The Company’s ultimate controlling shareholder is Charoen Pokphand Group (the holding company of a group of companies which is a leading conglomerate in Asia) which is indirectly interested in approximately 64.94% of the total number of issued Ordinary Shares.

#### **2. Financial information of the Group**

In the following section, we shall discuss the financial performance of the Group covering the last two financial years and the first half of 2019 and certain trend indicators of the business in the last five years.

*(a) Comparison of results in FY2017, FY2018 and comparative interim results*

Table A and B below summarised certain key numbers extracted from the financial statements of the Group for the six months ended 30 June 2018 and 2019, and the financial years ended 31 December 2017 (“FY2017”) and 2018 (“FY2018”) respectively.

Table A: Extract of information from the Company’s consolidated statement of profit or loss

	For the six months ended 30 June		For the year ended 31 December	
	2019 RMB’000 (unaudited)	2018 RMB’000 (unaudited)	2018 RMB’000 (audited)	2017 RMB’000 (audited)
Revenue	5,265,497	5,256,860	10,122,022	9,655,191
Gross profit	931,146	925,610	1,782,220	1,736,502
Gross margin (%)	17.68%	17.61%	17.61%	17.99%
Profit/(loss) for the period/year attributable to the equity shareholders of the Company	40,065	137,690	(288,359)	179,040

Following a period of successive losses since 2012, the Group returned to profitability in FY2017 after a year of implementation of (a) major costs rationalisation to drive savings in personnel expenses, general operation and administrative overheads, and (b) business transformation initiatives including self-developed measures to digitalise part of the business, reformatting of stores, collaboration with e-commerce business partners, integration of its own online-to-offline (“O2O”) channel apps, improved mechanisation and supply chain logistics, automation of self-service registers and a new enterprise resource planning system aimed to improve search and analysis of market intelligence. In FY2018, the Group returned to a loss of approximately RMB288.4 million after an impairment loss of goodwill and intangible assets of approximately RMB401.5 million. Excluding these impairment losses, the adjusted net profit for FY2018 was approximately RMB113.1 million as compared with a net profit of approximately RMB179.0 million in FY2017.

In respect of the comparative interim results for the six months ended 30 June 2018 and 2019 respectively, we have observed a 70.90% period-to-period decline in profit attributable to Shareholders. As set out in the paragraph 4 of Appendix I to the Scheme Document, HKFRS 16, *Lease* came into effect for the accounting periods beginning on or after 1 January 2019, following which lessees no longer distinguish finance leases and operating leases, and instead, all leases would be accounted for with a similar approach to finance lease accounting. As disclosed in the 2019 Interim Results Announcement, the decrease in net profit was mainly due to the impact from the adoption of HKFRS 16, *Lease*, which reduced the total profit by approximately RMB79.4 million.

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**PART VI                      LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

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Table B below sets out the key numbers in respect of the Group’s financial positions extracted from the annual report of the Company for the year ended 31 December 2018 and the 2019 Interim Results Announcement.

Table B: Extract of information from the Company’s consolidated statement of financial position

	<b>As at 30 June 2019</b>	<b>As at 31 December 2018</b>
	<i>RMB’000</i>	<i>RMB’000</i>
	<i>(unaudited)</i>	<i>(audited)</i>
Non-current assets	8,416,348	4,262,636
- Goodwill	2,268,814	2,268,814
- Intangible assets	—	111,934
Non-current liabilities	(5,125,898)	(1,132,248)
- Loans from controlling shareholder	(950,071)	(944,965)
Current assets	2,511,855	2,848,099
Current liabilities	(4,421,916)	(4,571,318)
Net current liabilities	(1,910,061)	(1,723,219)
Total equity (net asset value of (“NAV”))	1,380,389	1,407,169
NAV less intangible assets and goodwill (“NTAV”)	(888,425)	(973,579)

In respect of the financial positions at each of the accounting dates stated above, the Group recorded a net current liabilities position. The significant increase in the amount of non-current assets and non-current liabilities was mainly due to the impact of the adoption of HKFRS 16. Shareholders should note that the Group’s long-term non-equity financing is primarily provided by the loans from the controlling shareholder of the Company amounting to approximately RMB945.0 million and RMB950.1 million as at 31 December 2018 and 30 June 2019 respectively.

Over 25% of the Group’s non-current assets resided in goodwill arising primarily from its acquisition of stores in prior years. The Group carries out on-going assessments on its underlying cash generating units (“CGUs”) and when necessary, makes impairment on its accumulated goodwill balance, as well as eliminating any goodwill attributable to any sale of such CGUs upon disposals. Over the last three financial years, the Group has made goodwill impairment charges twice as shown in Table C below. Excluding the balances on goodwill and intangible assets, the Group recorded negative NTAV at each of the above-mentioned account dates.

**PART VI LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

Table C: History of goodwill impairment as extracted from the Company’s annual reports

For the year ended 31 December	Amount of goodwill impairment <i>RMB’000</i>	Remarks
2016	257,526	CGU impairment related to the Group’s operations located in the East China Region
2017	—	
2018	385,438	CGU impairment related to the Group’s operations located in the East China Region and loss of a store tenancy

**(b) Overview of financial performance in the last five years**

The Group has been operating under challenging market conditions for many years. During the period under review, competitions have intensified with changing consumer habits for on-line shopping, as evidenced from the phenomenal growth of on-line sales and the emergence of abundant on-line marketing and delivery logistic channels. Chinese technology giants (such as Alibaba Group) have since 2016 rolled out a new generation of brick-and-mortar retail superstores, as part of their O2O business or generally known as “New Retail” strategy, with cutting edge innovations and applications (including, for example, deployment of artificial intelligence and big data applications, barcodes for product identification and information, QR code ordering, online payment settlement and home delivery services) to offer consumers a totally new experience and an unrivalled level of convenience which is, hitherto, not available in the traditional retail stores.

We set out below a summary of certain key performance data as extracted from the Company’s past annual reports.

Table D: Key performance data of the Company (2014 - 2018)

Key parameters	2014	2018	Percentage change	During 2014 to 2018	
				Highest (Year)	Lowest (Year)
Revenue ( <i>RMB’000</i> )	10,911,966	10,122,022	-7.24%	10,911,966 (2014)	9,655,191 (2017)
Gross profit ( <i>RMB’000</i> )	1,837,997	1,782,220	-3.03%	1,837,997 (2014)	1,736,502 (2017)
Gross margin	16.84%	17.61%		17.99% (2017)	16.84% (2014)
Number of stores	55	80	45.45%	80 (2018)	55 (2014)
Total area of stores ( <i>sq. metres’000</i> )	470.0	859.6	82.89%	859.6 (2018)	470.0 (2014)
Average daily customers’ count	5,656	3,933	-30.46%	5,656 (2014)	3,933 (2018)
Goodwill ( <i>RMB’000</i> )	2,911,778	2,268,814	-22.08%		

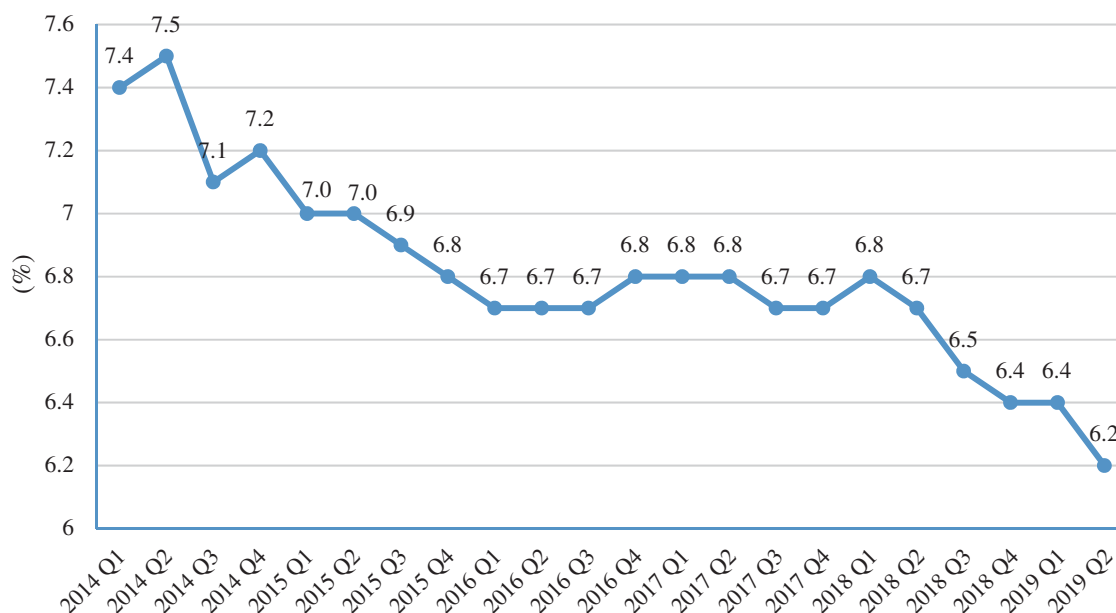
The numbers in Table D above encapsulates, to some extent, the effect of market competitions the Group has been experiencing in recent years. We understand that the Company has continued to expand its stores network as part of its long-term strategy. Despite the net increase in number of stores and total store floor areas, it has not resulted in significant improvement in consolidated revenue and gross margin over the period.

**3. Overview of the Chinese economy and retail industry and recent market developments**

*(a) Macro developments*

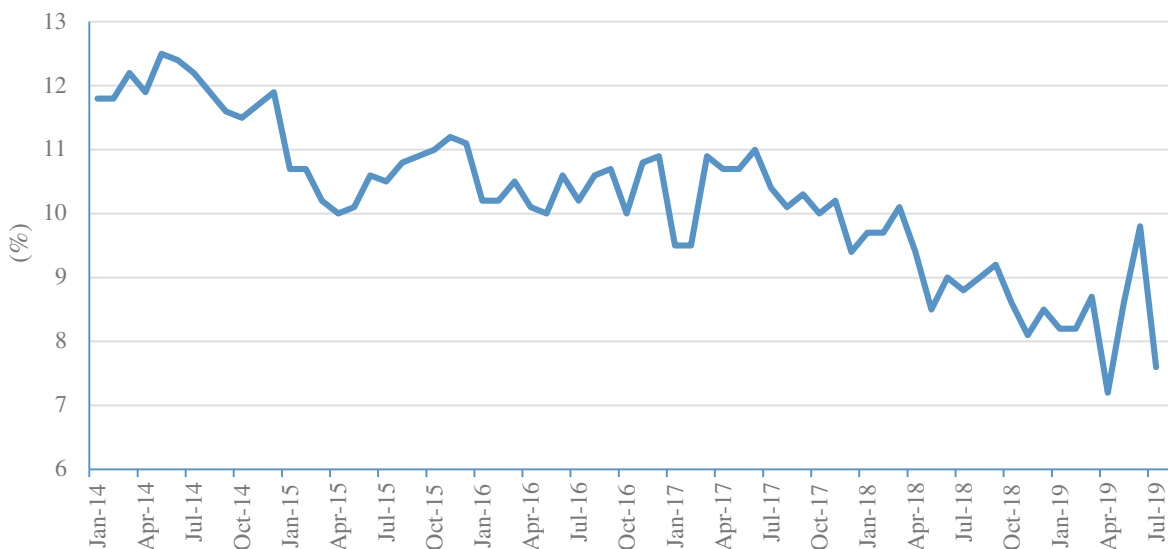
In the second quarter of 2019 and amidst the uncertainties of the US-China trade negotiations, China’s gross domestic products (“GDP”) growth slowed to 6.2% from the growth rate of 6.4% recorded in each of the preceding two quarters, while China’s year-on-year GDP growth rate experienced a slowdown from 2014 as shown in Diagram A. Similar to GDP growth rate, year-on-year retail sales growth in the PRC have also been trending down in general from 2014 to 2019 as shown in Diagram B.

Diagram A: China’s year-on-year GDP growth rate by quarter



Source: National Bureau of Statistics of China

Diagram B: China’s year-on-year growth rate of retail sales by month



Source: National Bureau of Statistics of China

Based on the “Global Consumer Insights Survey 2018 China Report” issued by PricewaterhouseCoopers Limited (a leading professional firm providing a full range of services, including audit and assurance, consulting, tax advisory, risk assurance and market research), the report mentioned that China’s retail market forecasted to grow at a compound annual growth rate of 9% from 2017 to 2021, which is still robust but slower than 12% achieved from 2012 to 2016.

**(b) Sector developments**

Over recent years, hypermarket and supermarket operators in China have been facing fierce competition and witnessing slower growth compared to online retailers. Like the Company, many hypermarket and supermarket operators have stepped up efforts to revamping their operations to cater for the changing needs of Chinese customers. Part of the revamp strategy also involves store openings and closures of unprofitable stores. Based on the research report “Spotlight on China Retail” in October 2018 published by Fung Business Intelligence (<https://www.fbicgroup.com>), a company headquartered in Hong Kong focusing on analysis of market data on global sourcing, supply chains, distribution, retail and technology, we have selected the top three hypermarket and supermarket players in terms of the total number of stores operated in 2017 and compared the number of stores (including opening and closure during the year) in 2018 based on the latest published annual reports of the respective companies as set out in Table E below as illustration of the general market trend in the retail industry in China.



Table E: Store opening and closure of selected hypermarkets and supermarkets companies in 2018

	<b>Opening</b>	<b>Closure</b>	<b>Total number of stores as at 31 December 2018</b>
Lianhua Supermarket Holdings Co., Ltd. (Stock code: HK 980)	314	364	3,371
Chengdu Hongqi Chain Co., Ltd. (Stock code: SZ 002697)	146	59	2,817
Zhongbai Holdings Group Co., Ltd. (Stock code: SZ 000759)	187	61	1,255

Sources: Fung Business Intelligence and 2018 annual reports of the respective companies

**(c) Industry consolidation and strategic alliances**

Intensive competition has also resulted in some foreign players exiting from the China market in recent years. Notable examples include the sale of Tesco's loss making China operations to China Resources Enterprise Limited in 2014, and the sale of over 90 stores by South Korea's Lotte Corporation to Chinese domestic operators in 2018. More recently, Carrefour Group announced the sale of 80% of its China hypermarket operation ("Carrefour China") to Suning.com owned by Suning Holding Group. Another notable trend is the expansion of domestic regional operators such as Yonghui Superstores, Lianhua Supermarkets and Sun Art Retail Group, which have all extended their business footprints nationally.

In the quest of achieving or improving O2O integration, some traditional leading grocery retailers have formed partnerships with, or were partially acquired by, internet companies to gain access to payment tools, social media, big data analytics, etc. In turn and as set out in Table F below, internet companies can leverage the extensive physical store networks of hypermarkets or supermarkets to reach more customers.

Table F: Selected strategic alliances with internet companies

<b>Year</b>	<b>Strategic alliances</b>
2017	Alibaba Group acquired 36.16% interests in Sun Art Retail Group.
2018	Tencent Group and China Resources Group signed strategic cooperation agreement.
2018	Walmart China and Tencent Group formed in-depth strategic cooperation.
2018	JD.com and Walmart to accelerate the integration of their stores and platforms, inventories and customers to roll out a pilot 1-hour delivery service in China.

**4.    Reasons for and benefits of the Proposal**

As stated in the Letter from the Board, in putting the Proposal forward, the Offeror has taken into account the following principal factors, as set out below:

*(a)    Capital structure and financial position of the Group*

The Group's consolidated statement of financial position as at 30 June 2019 showed limitations on the Group's sources of funding. As at that date, the Group had:

- (i) net current liabilities of approximately RMB1.9 billion;
- (ii) United States dollar loans from its controlling shareholder equivalent to almost RMB1.0 billion, which are unsecured and expiring in December 2020; and
- (iii) approximately 11.3 billion Convertible Preference Shares in issue, almost all of which were held by the controlling shareholder, convertible into Ordinary Shares on a one-for-one basis (subject to public float requirements). Full conversion of the Convertible Preference Shares would approximately double the Ordinary Shares in issue.

These features are unusual for a public company and, taken overall, may limit the Group's options in satisfying its future funding requirements in a cost effective manner. The Proposal, once implemented, would simplify and strengthen the Group's financial position.

*(b)    Marketability and price performance of the Ordinary Shares*

There has not been an active market for the Ordinary Shares. In the last 180 trading days up to the Announcement Date, there was no trading in the Ordinary Shares on the Stock Exchange on 87 trading days. The average daily trading volume over the last 180 trading days up to the Last Trading Day was approximately 0.37 million Ordinary Shares, representing just approximately 0.01% of the Ordinary Shares held by Ordinary Shareholders other than the Offeror, the Principal Offeror Concert Party and the Other Offeror Concert Parties, and the average daily turnover was approximately HK\$32,770. The market price of the Ordinary Shares has declined in 2018 and did not materially improve even during relevant periods of relative market strength such as the first quarter of 2019.

The Proposal provides the Scheme Ordinary Shareholders with an opportunity to realise their illiquid investment in the Company at a healthy premium over the prevailing marketing price and the net book value of the Company.

*(c) Costs and expenses of maintaining the Company's listed status*

To maintain its listed status, the Company faces administrative and compliance burdens and related costs and expenses. Due to illiquidity and underperformance in the trading of the Ordinary Shares, the Company has difficulty raising funds through equity financing, and the Offeror believes the position is unlikely to improve significantly in the near term. As such, administrative and compliance costs and management resources associated with maintaining the Company's listing status are no longer justified.

Furthermore, following the implementation of the Proposal, the Offeror and the Company can make strategic decisions free from the pressure of market expectations, short-term profit visibility and share price fluctuation as a publicly listed company. The management of the Company can also utilise the resources which would otherwise go towards administrative, compliance and other listing-related matters on business operations of the Group.

Accordingly, the Offeror has decided to put forward the Proposal, in particular the Ordinary Share Scheme, to the Scheme Ordinary Shareholders on the basis of a cash consideration of HK\$0.11 per Scheme Ordinary Share cancelled. The Offeror considers that the Proposal provides an attractive opportunity to Scheme Ordinary Shareholders to realise their investment at a price which is substantially higher than the net book value per share by 57.1% based on the unaudited financial statements as of 30 June 2019 and higher than the recent average market prices, with premiums in the range of 10.0% to 30.3% on the bases set out in the Letter from the Board. The Offeror considers that a fixed cash consideration avoids the illiquidity discount which is likely to arise if significant number of Ordinary Shareholders tried to sell in the market. The Company has not distributed any dividend since 1994 and the Scheme Ordinary Shareholders can reinvest the cash proceeds that they shall receive upon the implementation of the Proposal in income earning securities if they so wish.

Given the Company will apply for the withdrawal of listing of the Ordinary Shares on the Stock Exchange after the Ordinary Share Scheme becoming effective, the Offeror, pursuant to Rule 14 of the Takeovers Code, proposes to implement the CPS Scheme so that the Scheme CPS Holders can also realise their investments in the unlisted CPS on a similar price basis to the Ordinary Share Scheme if the CPS Scheme becomes effective.

We understand the above-mentioned rationales from the Offeror's perspectives and in particular, we agree with the view that the Group's financial position and its existing capital and funding structure and the illiquidity of the trading in the Ordinary Shares would all limit the Group's ability to raise equity financing, or to tap external funding in a cost effective manner. A successful implementation of the Proposal would also save the Group from the administrative and compliance costs of maintaining a public listing status, and would free up management resources to focus on business and strategic decisions and not be hampered by short term market expectation and share price pressures.

Given the illiquidity of trading in the Ordinary Shares and the absence of dividend distribution by the Company since 1994, we also agree that the Proposal represents an exit window for the Shareholders to collectively exit at a uniform price. We shall assess the merit of the Ordinary Share Cancellation Price and the CPS Cancellation Price (together, the "Offer Prices"), being each at HK\$0.11 in the section below.

**5. Our analysis and assessment of the terms of the Proposal**

Our assessment consists of primarily three parts, namely an analysis of the Offer Prices under the Proposal in relation to (a) the recent market performance of the Ordinary Shares and the Hong Kong stock market in general, (b) a comparative analysis with a group of comparable companies to the Company, and (c) a comparison with the publicly known terms of a recently announced acquisition of a major hypermarket business in the PRC. In addition, we shall make references to the terms of the recent privatisation of Hong Kong listed companies.

*(a) Analysis of share price performance, liquidity and income yield on the Ordinary Shares*

*(i) Share price performance*

The Ordinary Share Cancellation Price and the CPS Cancellation Price of HK\$0.11 each respectively represent:

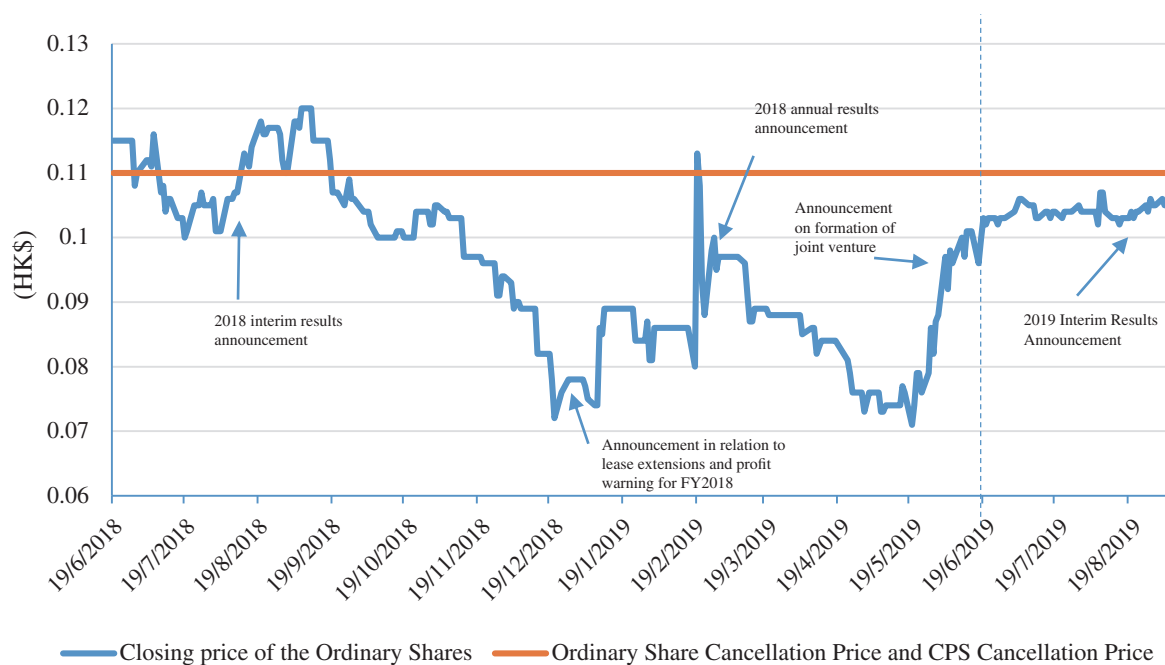
- a premium of approximately 10.0% over the closing price of HK\$0.1 per Ordinary Share as quoted on the Stock Exchange on the Last Trading Day;
- a premium of approximately 4.8% over the closing price of HK\$0.105 per Ordinary Share as quoted on the Stock Exchange on the Latest Practicable Date;
- a premium of approximately 12.0% over the average closing price of approximately HK\$0.0982 per Ordinary 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 29.4% over the average closing price of approximately HK\$0.0850 per Ordinary 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 30.3% over the average closing price of approximately HK\$0.0844 per Ordinary 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 26.5% over the average closing price of approximately HK\$0.0870 per Ordinary 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 28.1% over the average closing price of approximately HK\$0.0859 per Ordinary 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 21.9% over the average closing price of approximately HK\$0.0902 per Ordinary Share based on the daily closing prices as quoted on the Stock Exchange for the 180 trading days up to and including the Last Trading Day;

- a premium of approximately 52.8% over the audited consolidated NAV per Share of approximately HK\$0.072 as at 31 December 2018, calculated based on the NAV of the Group of approximately HK\$1,606.0 million (based on the exchange rate of HK\$1:RMB0.8762, the central parity rate published by the People’s Bank of China on its website as at 28 December 2018 for illustrative purposes) and the 22,317,882,172 Shares in issue as at 31 December 2018; and
- a premium of approximately 57.1% over the unaudited consolidated NAV per Share of approximately HK\$0.070 as at 30 June 2019, calculated based on the NAV of the Group of approximately HK\$1,569.2 million (based on the exchange rate of HK\$1:RMB0.8797, the central parity rate published by the People’s Bank of China on its website as at 28 June 2019 for illustrative purposes) and the 22,317,882,172 Shares in issue as at 30 June 2019.

As stated in the Letter from the Board, the Ordinary Share Cancellation Price was determined on an arm’s length basis after taking into account the financial information of the Group including the financial position of the Group as at 31 December 2018, the prices of the Ordinary Shares traded on the Stock Exchange and other privatisation transactions in Hong Kong in recent years, and the CPS Cancellation Price was determined on an arm’s length basis with reference to the Ordinary Share Cancellation Price.

We have reviewed the daily closing price of the Ordinary Shares as quoted on the Stock Exchange during the period commencing from 19 June 2018, being 12-month period leading up to 18 June 2019, being the Last Trading Day (both days inclusive) (the “Pre-Announcement Period”) and 19 June 2019 to the Latest Practicable Date (both days inclusive) (the “Post-Announcement Period”, collectively known as the “Review Period”). The following graph sets out the closing price of the Ordinary Shares on the Stock Exchange during the Review Period:

**Graph A: Historical daily closing price of the Ordinary Shares during the Review Period**



Source: the website of the Stock Exchange

As shown in the graph above, the closing price of the Ordinary Shares showed a general decreasing trend from 19 June 2018 to the second lowest level of HK\$0.072 per Ordinary Share on 21 December 2018. Subsequent to the publication of an announcement in relation to, among other things, profit warning for FY2018 on 27 December 2018, the closing price of the Ordinary Shares gradually went up and then surged to the highest of HK\$0.113 per Ordinary Share on 19 February 2019. We have discussed with the Management regarding the possible reasons for such price surge and they were not aware of any specific reasons which may lead to the aforesaid price surge. The closing price of the Ordinary Shares then resumed a downward trend to the lowest point of HK\$0.071 over the period under review on 20 May 2019, before it followed an ascending path over a period of a month to reach the level of HK\$0.100 on the Last Trading Day.

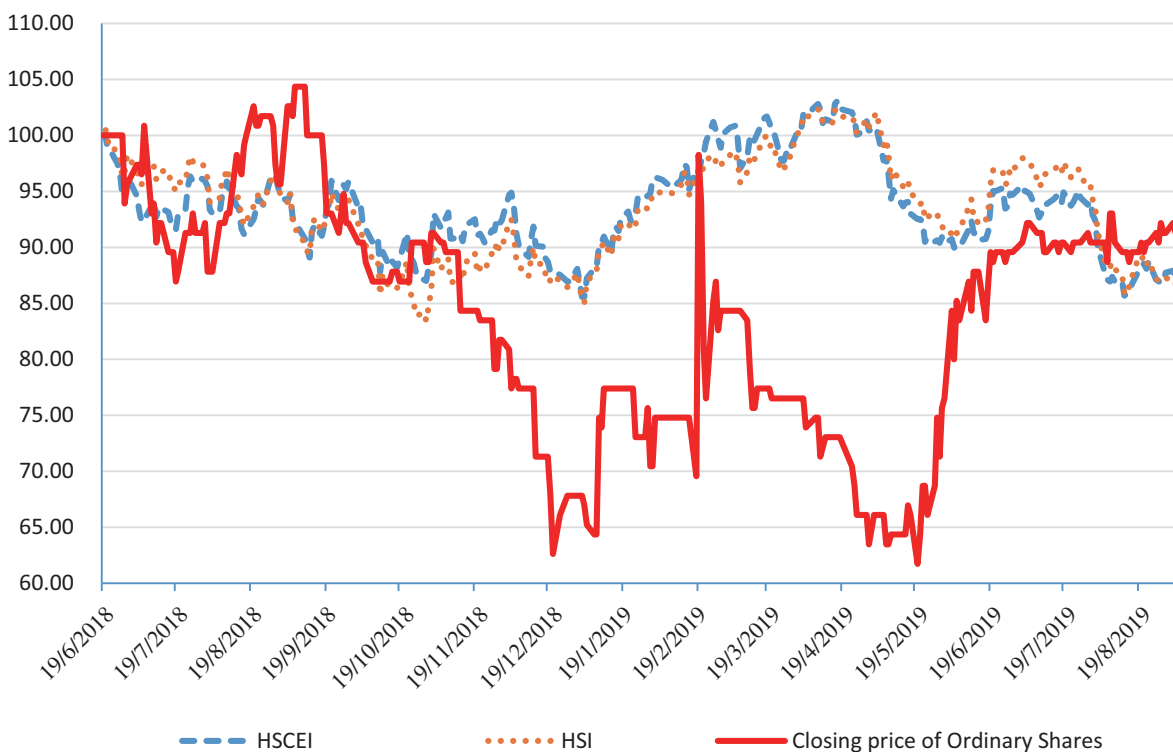
We noted that the Ordinary Shares had been traded below the Offer Prices of HK\$0.11 for most of the time during the Review Period, and in particular, there was only one trading day in which the closing price of the Ordinary Shares was above HK\$0.11 from 18 September 2018 up to the Latest Practicable Date.

During the Post-Announcement Period, the closing price of the Ordinary Shares increased to HK\$0.105 per Ordinary Share as at the Latest Practicable Date.

*(ii) Comparison with the Hong Kong stock market*

Set out in Graph B below is the comparison between the movement of the closing price of the Ordinary Shares, Hang Seng Index (“HSI”) and Hang Seng China Enterprises Index (“HSCEI”) during the Review Period (all adjusted to 100 as at 19 June 2018 for ease of comparison).

Graph B: Movement of the closing price of the Ordinary Shares, HSI and HSCEI during the Review Period



Source: the website of the Stock Exchange

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**PART VI LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

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As illustrated in the graph above, the closing prices of the Ordinary Shares were generally underperformed as compared to the HSI and HSCEI since November 2018. However, since around 20 May 2019, the closing price of the Ordinary Shares rose and up to the Last Trading Day, reached a point which closely converged with the movement and levels of the HSI and HSCEI.

*(iii) Trading liquidity*

The following table sets out the average daily trading volumes of the Ordinary Shares and the percentages of such trading volumes to total issued share capital and the public float of the Company at the end of each relevant month during the Review Period:

Table G: Average daily trading volume of the Ordinary Shares

<b>Month</b>	<b>Number of trading days during the month/period</b>	<b>Average daily trading volume of the Ordinary Shares during the month/period</b>	<b>Percentage of average daily trading volume to total number of Ordinary Shares in issue</b>	<b>Percentage of average daily trading volume to total number of Ordinary Shares in issue held by public Ordinary Shareholders</b>
<b>Pre-Announcement Period</b>				
<b>2018</b>				
June (19 to 30 June)	9	143,365	0.001%	0.005%
July	21	336,905	0.003%	0.012%
August	23	153,217	0.001%	0.006%
September	19	152,632	0.001%	0.006%
October	21	193,810	0.002%	0.007%
November	22	227,273	0.002%	0.008%
December	19	223,684	0.002%	0.008%
<b>2019</b>				
January	22	139,545	0.001%	0.005%
February	17	907,647	0.008%	0.033%
March	21	67,619	0.001%	0.002%
April	19	349,561	0.003%	0.013%
May	21	774,214	0.007%	0.028%
June (up to and including the Last Trading Day)	11	808,364	0.007%	0.029%

*(Note)*

<b>Month</b>	<b>Number of trading days during the month/period</b>	<b>Average daily trading volume of the Ordinary Shares during the month/period</b>	<b>Percentage of average daily trading volume to total number of Ordinary Shares in issue</b>	<b>Percentage of average daily trading volume to total number of Ordinary Shares in issue</b>	<b>Percentage of average daily trading volume to total number of Ordinary Shares in issue held by public Ordinary Shareholders</b>
<b>Post-Announcement Period</b>					
June (19 to 30 June)	8	2,714,938	0.025%		0.098%
July	22	1,592,500	0.014%		0.058%
August	22	703,032	0.006%		0.025%
September (up to and including the Latest Practicable Date)	5	230,000	0.002%		0.008%

*(Note)*

*Source: the website of the Stock Exchange*

*Note:* The calculation is based on 2,764,831,785 Ordinary Shares in issue held by public Ordinary Shareholders as at the end of each respective month.

As noted from the above table, trading in the Ordinary Shares had been extremely thin with the average daily trading volume to total number of Ordinary Shares in issue held by public Ordinary Shareholders below 0.035% during the Pre-Announcement Period. During the Post-Announcement Period, the average daily trading volume to total number of Ordinary Shares in issue held by public Ordinary Shareholders increased but remained below 0.10%. We believe that the increase in trading volume was likely due to the market reaction to the publication of the Announcement. Overall, we consider the trading in the Ordinary Shares to be inactive and illiquid.

Given that the Ordinary Shares are highly illiquid, there is currently limited opportunity for the Independent Ordinary Shareholders to divest their investments in the Company, not to mention that the disposal of large blocks of Ordinary Shares held by them in the open market would likely trigger price slump of the Ordinary Shares. Accordingly, we agree that the Proposal provides a valuable opportunity for the Independent Ordinary Shareholders, especially those holding a large block of the Ordinary Shares, to realise their investments in the Company. Independent Ordinary Shareholders should note that the future liquidity of the Ordinary Shares is uncertain.

Besides, the Group has not raised any capital from the capital market since 2012. Given the thin trading liquidity of the Ordinary Shares, we agree with the view of the Offeror that the Company will unlikely be able to take advantage of its listing status on the Stock Exchange to raise funds from the capital markets on terms acceptable to the Group in the foreseeable future.



*(b) Comparative analysis with other Hong Kong listed retail business*

In carrying our analysis and assessment under this sub-section, we have sought to compare the value of the Company based on the Offer Prices of HK\$0.11 and the ascribed value of the Company based thereon with other listed companies in the following valuation matrix (Table H below), covering (a) the current market statistics of the relevant comparable companies (the “Comparable Peers”), and (b) the terms of the transaction precedent(s) during the Review Period which involve sale and purchase of sizeable supermarket and/or hypermarket operations with revenue of approximately RMB1 billion or above in the PRC. In this context and as aforementioned in the section IV.3(c) of this letter, we have identified only one such transaction relating to the sale of the majority interest in Carrefour China, a major hypermarket operator in the PRC, to Suning.com which was announced on 23 June 2019. We believe these comparisons would provide relevant benchmarking yardsticks for our assessment.

China retailing is a broad sector containing a wide spectrum of retail operations and business models covering different business focuses on pricing, varieties of mechanisation, sale services, profit margin, store location and footprint concentration and coverage. For the purpose of our analysis, we consider it is relevant for our analysis to concentrate on hypermarket and supermarket companies which bear closer business characteristics with the Company. Within this sector, we further refined our selection criteria to compare the Company with only sizeable Hong Kong listed companies with revenue of approximately RMB1 billion or above in FY2018 based on the published annual reports of the respective companies during the Review Period, and which derived over 50% of their respective revenue from their respective supermarket and/or hypermarket operations in the PRC (i.e. Comparable Peers).

We recognise that there are other operators in this sector not included in our analysis for reasons that they are either privately owned, or listed on other stock exchanges in the PRC, or that their retail operations form only part of a larger publicly listed group which render them not suitable for our purpose of valuation comparison. Nevertheless, from the publicly known news and information on such companies, they provided useful intelligence on the industry trend and the competition landscapes such as those we mentioned in section IV.3 of this letter.

Consequently, we have identified an exhaustive list of 5 Hong Kong Main Board listed Comparable Peers in the valuation matrix as set out in Table H below.

The use of price-to-earnings (“P/E”) ratio and price-to-book (“P/B”) ratios are widely adopted for evaluating the value of a company. In particular, for companies that generate recurring revenue and have profitable business, P/E ratio analysis is a common approach for valuation. However, as the Group was loss making in the last financial year and has been loss making since 2012 with the exception of 2017, P/E ratio approach was not practicable for comparison with other profitable companies. As such, we have adopted an alternative approach to use price-to-sales (“P/S”) ratio, enterprise multiple and dividend yield for comparison.

## PART VI LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

P/S ratio analysis indicates how much investor paid for a share compared to the sales a company generated per share and it measures the value placed on sales by the market. However, the value of the ratio varies across different industries and a better benchmark is to compare companies within the same industry. There are situations in which P/S ratio is more meaningful than the more popular ratios such as P/E ratio, etc., for example when there is net loss or where the net income is manipulated through creative accounting. Generally, revenue is the top-level parameter of a company's financial performance and particularly for companies in the same industry, revenue is less susceptible to accounting manipulations as compared to net income.

Shareholders should also note that the use of enterprise multiple, as measured by a company's enterprise value (being the company's ascribed market value (or market capitalisation) plus borrowings and minority interest less cash); over a company's EBITDA (being the company's earnings before interest, taxation, depreciation and amortisation charges as defined below) is a popular valuation method and is often used in conjunction with, or an alternative to the P/E method to determine the fair value of a company. This valuation method also has the advantage of being capital structure-neutral, and therefore the enterprise multiple can be used to compare companies with different debt levels.

The Company reported a one-off impairment charge of approximately RMB401,540,000 in FY2018. We further note that impairment charges are not necessarily an annual recurring feature, which occurred three times (for each of the financial years ended 31 December 2015, 2016 and 2018) out of the six financial years ended 31 December 2018. To enhance comparability between the Comparable Peers and the Company, we have also included the parameter of adjusted enterprise multiple by excluding any impairment charges in FY2018 from the EBITDA of the respective Comparable Peers in Table H for comparison.

Table H: Comparison with the Comparable Peers

Company name (Stock code)	Number of stores	Principal business	Market capitalisation as at the Last Trading Day	Revenue	Profit attributable to equity shareholders	P/S ratio	Enterprise multiple	Adjusted enterprise multiple	P/B ratio	Dividend yield in last financial year
			HK\$' million (Note 1)	RMB' million (Note 2)	RMB' million	times (Note 3)	times (Note 4 & 5)	times (Note 6)	times (Note 7)	% (Note 8)
Sun Art Retail Group Limited (6808)	484	Operation of hypermarkets in the PRC	64,870	99,359	2,588	0.57	6.11	5.89	2.41	2.06
Lianhua Supermarket Holdings Co., Ltd. (980)	3,371	Operation of hypermarkets, supermarkets and convenience stores in the PRC	1,892 (Note 1)	25,389	Loss making	0.07	N/A (Note 9)	N/A (Note 9)	0.77	—
China Shun Ke Long Holdings Limited (974)	70	Operation of retail outlets including supermarkets and hypermarkets in the PRC	488	987	11	0.44	11.08	11.08	1.55	—

Company name (Stock code)	Number of stores	Principal business	Market capitalisation as at the Last Trading Day	Revenue		Profit attributable to equity shareholders	P/S ratio	Enterprise multiple	Adjusted enterprise multiple	P/B ratio	Dividend yield in last financial year
			HK\$' million (Note 1)	RMB' million (Note 2)	RMB' million	times (Note 3)	times (Note 4 & 5)	times (Note 6)	times (Note 7)	% (Note 8)	
Aeon Stores (Hong Kong) Co., Limited (984)	96	Operation of department stores and retail stores in the PRC and Hong Kong	1,024	8,515	Loss making	0.11	N/A (Note 9)	N/A (Note 9)	0.71	11.17	
Springland International Holdings Limited (1700)	93	Operation of department stores and supermarkets in the PRC	3,069	4,608	400	0.59	4.18	4.08	0.54	6.45	
		Maximum				0.59	11.08	11.08	2.41	11.17	
		Minimum				0.07	4.18	4.08	0.54	—	
		Average				0.35	7.12	7.02	1.20	3.94	
<b>The Company</b> (Note 10)	83	Operation of hypermarkets in the PRC	<b>2,455</b> (valuation of the Company based on the Offer Prices)	<b>10,122</b>	<b>Loss making</b>	<b>0.21</b>	<b>27.70</b>	<b>5.79</b>	<b>1.57</b>	<b>—</b>	

## Notes:

- The market capitalisation of the respective Comparable Peers is calculated as the closing price of the shares as at the Last Trading Day multiplied by the total number of issued share capital of the respective Comparable Peers. For Lianhua Supermarket Holdings Co., Ltd, the total number of issued share capital includes 715,397,400 domestic shares, 31,602,600 unlisted foreign shares and 372,600,000 H shares.
- Revenue of the respective Comparable Peers is extracted from the latest published consolidated annual report of the respective Comparable Peers.
- P/S ratio is calculated based on the market capitalisation of the respective Comparable Peers as at the Last Trading Day divided by the latest published consolidated total annual revenue of the respective Comparable Peers.
- The enterprise multiple is calculated based on the enterprise value (“EV”) of the respective Comparable Peers divided by the latest published consolidated profit for the year before interest, taxes, depreciation, and amortisation (“EBITDA”) of the respective Comparable Peers.
- EV is calculated as market capitalisation as at the Last Trading Day plus the total of long-term and short-term debt plus minority interest minus cash and bank balances as extracted from the latest published annual report of the respective Comparable Peers.
- The adjusted enterprise multiple is calculated based on EV of the respective Comparable Peers divided by the EBITDA excluding the impairment charges of the respective Comparable Peers.

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## **PART VI LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

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7. P/B ratio is calculated based on the market capitalisation of the respective Comparable Peers as at the Last Trading Day divided by the latest published NAV attributable to equity shareholders of the respective Comparable Peers.
8. Dividend yield is calculated as total dividend per share in the last financial year (including interim/special dividend, if any) divided by the closing share price of the respective Comparable Peers on the Last Trading Day.
9. The enterprise multiple and the adjusted enterprise multiple of Lianhua Supermarket Holdings Co., Ltd and Aeon Stores (Hong Kong) Co., Limited are negative as a result of these two companies did not record any debt in the latest published financial statements and their cash and bank balances were significantly higher than the respective market capitalisations, and thus they are excluded from the enterprise multiple analysis.
10. The P/S ratio, the enterprise multiple and the P/B ratio of the Company are calculated based on the valuation of the Company implied by the Offer Prices. The implied valuation of the Company is calculated as: the Ordinary Share Cancellation Price x the total number of Ordinary Shares as at the Last Trading Day + the CPS Cancellation Price x the total number of Convertible Preference Shares as at the Last Trading Day.
11. The exchange rate of HK\$1:RMB0.87998, the central parity rate published by the People's Bank of China on its website as at the Last Trading Day, is adopted in the calculations in Table H for illustrative purposes.

As shown in Table H above, we noted that:

- (i) the P/S ratios of the Comparable Peers ranged from approximately 0.07 times to approximately 0.59 times, with an average of approximately 0.35 times. The P/S ratio of the Company based on the Offer Prices was approximately 0.21 times, which (a) is within the range of the P/S ratios of the Comparable Peers; and (b) although is significantly lower the average of approximately 0.35, it is the highest amongst unprofitable Comparable Peers;
- (ii) the enterprise multiples of the Comparable Peers ranged from approximately 4.18 times to approximately 11.08 times, with an average of approximately 7.12 times. The enterprise multiple of the Company based on the Ordinary Share Cancellation Price was approximately 27.70 times, which is significantly higher than the highest enterprise multiple of the Comparable Peers;
- (iii) the adjusted enterprise multiples of the Comparable Peers ranged from approximately 4.08 times to approximately 11.08 times, with an average of approximately 7.02 times. The adjusted enterprise multiple of the Company based on the Ordinary Share Cancellation Price was approximately 5.79 times, which is lower than the average of approximately 7.02 times but is within the range of the adjusted enterprise multiples of the Comparable Peers;
- (iv) the P/B ratios of the Comparable Peers are in the range of approximately 0.54 times to approximately 2.41 times, with an average of approximately 1.20 times. The P/B ratio of the Company based on the Ordinary Share Cancellation Price was approximately 1.57 times, which is higher than the average P/B ratio of the Comparable Peers; and
- (v) the dividend yields of the Comparable Peers ranged from 0% to approximately 11.17%, with an average of approximately 3.94% versus the 0% dividend yield of the Company which has not paid dividend since 1994.

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**PART VI LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

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We believe the Offer Prices and the trading statistics of the Comparable Peers included in Table H above are appropriate comparisons and the Comparable Peers represent fair and representative samples to assess fairness of the Proposal. Based on the above-mentioned analysis, we consider that the ratio parameters (i.e. the P/S ratio, the P/B ratio and adjusted enterprise multiple of the Company) fall within the relevant range of ratio parameters of the Comparable Peers, with the enterprise multiple exceeding those of the Comparable Peers. These results indicated that the Offer Prices were not below the market statistic ranges of the public traded shares of the Comparable Peers. Shareholders should also note that as the Company has not paid a dividend since 1994 and thus dividend yield comparison is not relevant.

**(c) Comparison with the Comparable Peers based on refined selection criteria (excluding impairment charges)**

As the Comparable Peers in Table H above also include companies with department stores operation and/or retail operations in Hong Kong, we therefore seek to supplement our comparison as set out in the preceding section (b) by further refining our selection criteria of the Comparable Peers to include only those with (i) their supermarkets and hypermarkets are operated entirely in the PRC; and (ii) size of revenue that is comparable or larger than the FY2018 revenue of the Company. By applying these stricter selection criteria with a view to further distilling comparability, we would reduce the Comparable Peers to Sun Art Retail Group Limited (“Sun Art”) and Lianhua Supermarket Holdings Co., Ltd. (“Lianhua”) (together the “Refined Comparable Peers”), which are considered to be more relevant and representative companies in terms of geographical exposure and similarity of business operations for comparison purposes.

**Table I: Comparison with the Refined Comparable Peers (based on FY2018 published information)**

<b>Company name (Stock code)</b>	<b>Number of stores</b>	<b>Revenue RMB'000</b>	<b>Adjusted profit/(loss) attributable to equity shareholders RMB'000</b>	<b>Adjusted P/E ratio (Note 1) times</b>	<b>Adjusted EBITDA RMB'000</b>	<b>Adjusted enterprise multiple times</b>
Sun Art (6808)	484	99,359,000	2,870,000	19.89	7,648,000	5.89
Lianhua (980)	3,371	25,389,082	(211,120)	N/A	538,308	Negative (Note 2)
<b>The Company</b>	<b>83</b>	<b>10,122,022</b>	<b>113,181</b>	<b>19.09</b>	<b>507,628</b>	<b>5.79</b>

*Notes:*

1. P/E ratio is calculated based on the market capitalisation of the respective Refined Comparable Peers as at the Last Trading Day divided by the latest published consolidated profit for the year attributable to equity shareholders of the respective Refined Comparable Peers.
2. Lianhua has a substantial cash balance which is larger than the aggregate sum of its market capitalisation, debt and minority interest.

## PART VI LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Based on the above analysis, the Company's adjusted P/E ratio (19.09 times) and enterprise multiple (5.79 times) compare fairly close to that of Sun Art's adjusted P/E ratio (19.89 times) and adjusted enterprise multiple (5.89 times). Of all the Comparable Peers, Sun Art is the leader in terms of profitability, market capitalisation and revenue. It also has a stable profit record in the last 5 financial years up to 31 December 2018, and recorded profit attributable to equity shareholders ranging between approximately RMB2,400 million and RMB2,900 million, as well as hosting Alibaba Group as a 36.16% shareholder in Sun Art.

This refined comparison demonstrated that the valuation of the Company based on the Offer Prices is comparable to, or 1.7% slightly lower than, the market value ascribed to a market leader in the industry.

### *(d) Comparison with a significant transaction precedent during the Review Period*

In addition to our comparison analysis as set out in the preceding sections (b) and (c), we have identified only one significant transaction precedent during the Review Period, and we have compared the relevant ratios (Table J below) of the Offer Prices with the publicly known terms of this transaction precedent, namely, the acquisition of 80% interest in Carrefour China (wholly owned by the Carrefour Group) by Suning.com announced on 23 June 2019 (the "Carrefour Acquisition").

Carrefour Group entered the Chinese market in 1995 and had a network of 210 hypermarkets and 24 convenience stores throughout China in 2019. As disclosed in the press release of Carrefour Group relating to the sale of Carrefour China, Carrefour China reported revenue of approximately RMB28,468 million in FY2018, which also falls within the revenue range set in the selection criteria of the Refined Comparable Peers as described in the preceding sub-section (c).

Table J: Comparison with the acquisition of Carrefour China by Suning.com

Transaction details	Principal business of the target company	Revenue <i>RMB' million</i>	Value of the target company based on the consideration	P/S ratio <i>(Note 1)</i>	Enterprise multiple <i>(Note 2)</i>
Suning.com acquiring 80% in Carrefour China <i>(Note 3)</i>	Operation of hypermarkets and convenience stores in the PRC	28,468	RMB6,000 million (based on the consideration of RMB4,800 million for the acquisition of 80% equity interest)	0.21	21.19
<b>The Company</b>	Operation of hypermarkets in the PRC	<b>10,122</b>	<b>HK\$2,455 million</b> (valuation of the Company based on the Offer Prices)	<b>0.21</b>	<b>27.70</b>

*Notes:*

1. The P/S ratio of Carrefour China is calculated as the ascribed value of Carrefour China of RMB6,000 million (based on the consideration of RMB4,800 million for the acquisition of 80% equity interest) divided by the revenue for FY2018.
2. The enterprise multiple of Carrefour China is calculated as the enterprise value of approximately RMB10,934 million divided by the EBITDA of RMB516 million for FY2018.

3. Carrefour China is not a listed company and all the above-mentioned data for calculation of the P/S ratio and enterprise multiple of Carrefour China are extracted from the press release of Carrefour Group dated 23 June 2019. The P/S ratio and enterprise multiple of the Company and the Comparable Peers as shown in Table H are calculated with reference to the generally accepted formula, which we have assumed to be consistent with the ratios derived in the aforementioned press release of the Carrefour Group.

Based on the announced terms, the consideration payable by Suning.com represents (i) a P/S ratio of 0.21 times, and (ii) an enterprise multiple of 21.19 times. Based on the Offer Prices, the P/S ratio of the Company is equal to the P/S ratio of Carrefour China and the enterprise multiple of the Company is higher than the enterprise multiple of Carrefour China. There is no separate disclosure of any impairment charges or NAV information on Carrefour China. Accordingly, we are unable to calculate adjusted enterprise multiple (if applicable) and to make any P/B comparison.

Carrefour China is a private company, which has a larger scale of hypermarket operations than the Company with 210 hypermarkets and 24 convenience stores across the PRC in 2019. Imputed in the consideration of the Carrefour Acquisition is a degree of control premium as opposed to the terms of the Offer Prices, which represent considerations payable for minority interests in the Company. As the Offer Prices were determined on the basis of the Company being privatised and the listing of the Ordinary Shares being withdrawn, it follows that the Company's current listing status would not be a relevant factor for our comparison.

We consider the foregoing analysis is helpful to demonstrate that the Offer Prices bear valuation metrics that are no less favourable than those under the Carrefour Acquisition, despite the fact that the Company is a considerably smaller enterprise.

In summary, we are of the view that the Offer Prices of HK\$0.11 is fair and reasonable as (i) it is above the closing price of the Last Trading Day which tracked closely with market performance (as shown in Graph A and B), (ii) the valuation of the Company based on the Offer Prices falls within the range of the market statistics parameters (with the Company registering the highest enterprise multiple) of the Comparable Peers (as shown in Table H); (iii) the refined comparison demonstrated that the valuation of the Company based on the Offer Prices is fairly close to, or only 1.7% slightly lower than, the market value ascribed to a market leader in the industry (as shown in Table I); and (iv) the disclosed P/S ratio and enterprise multiple under the Carrefour Acquisition compare closely to the attributable P/S ratio and enterprise multiple of the Company based on the Offer Prices (as shown in Table J).

***(e) Comparison of other privatisation precedents***

To complete our analysis and as a supplemental reference, we have also compared the terms of the Proposal with other approved and completed Hong Kong privatisation precedents (the "Privatisation Precedents") from 1 June 2017 (being approximately two years prior to the Announcement Date) and up to the Latest Practicable Date as set out in Table K below.

We have identified 10 privatisation precedents within the period covered. They are exhaustive as far as we are aware of and we set out below a table to illustrate the premium of cancellation price over the share price on last trading day prior to the publication of announcement in relation to the respective privatisation proposals and the respective then consolidated adjusted NAV per share:

**PART VI LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

Table K: Privatisation precedents of Hong Kong listed companies

Date of announcement	Company name	Stock code	Principal business	Offer/ cancellation price	Premium over the closing price on the last trading day	Premium /(discount) over/ (to) the consolidated adjusted NAV per share
				<i>HK\$</i>	<i>Approximate %</i>	<i>Approximate %</i>
29 June 2019	Asia Satellite Telecommunications Holdings Limited	1135	Provision of satellite transponder capacity	10.22	23.4	10.0
29 March 2019	China Hengshi Foundation Company Limited	1197	Design, manufacture and sale of fiberglass fabrics	2.5	8.2	42.0
5 December 2018	Hopewell Holdings Limited	54	Property development, property investment, investments in power plants, hotel ownership and management, restaurant operations and food catering	38.8	46.7	(43.0)
30 October 2018	Advanced Semiconductor Manufacturing Corporation Limited	3355	Manufacture and sale of semiconductor wafers	1.5	66.7	82.9
27 September 2018	Sinotrans Shipping Limited	368	Dry bulk and container shipping, and liquefied natural gas shipping	2.7	49.2	(25.2)
10 June 2018	Hong Kong Aircraft Engineering Company Limited	44	Commercial aircraft overhaul, modification and maintenance	71.81	63.2	42.3
7 June 2018	Portico International Holdings Limited	589	Wholesale and retail distribution of ladies' and men's fashion apparel and accessories	4.1	50.2	(9.9)
10 November 2017	Welling Holding Limited	382	Manufacture and distribution of electrical household appliances	2.06	30.4	22.6
3 July 2017	China Assets (Holdings) Limited	170	Investment activities	6.8	61.5	(53.8)
19 June 2017	Bloomage BioTechnology Corporation Limited	963	Manufacture and sale of bio-chemical products and trading of cosmetic products and medical devices	16.3	14.0	215.3
	Maximum				66.7	215.3
	Minimum				8.2	(53.8)
	Average				41.3	28.3
	<b>The Company</b>			<b>0.11</b>	<b>10.0</b>	<b>57.1</b>



Shareholders should note that as these Privatisation Precedents are all in industries and businesses that are fundamentally different from the Company, they may not offer meaningful comparison. Shareholders should also note that as the level of premium of the offer/cancellation price of the Privatisation Precedents may be affected by the then market condition, this comparison analysis is for information only and is not a principal factor to assess whether the terms of the Proposal are fair and reasonable. Nevertheless and for statistical interest, we note that the Offer Prices are within range of the comparison parameters of these precedent transactions. As shown in Table K, the premium of the offer/cancellation price over the closing price on the last trading day of the Privatisation Precedents ranged from approximately 8.2% to 66.7%, with an average of approximately 41.3%. The premium offered by the Offer Prices over the closing price on the Last Trading Day of approximately 10.0% is within the range and lower than the average of the Privatisation Precedents. The premium/discount of the offer/cancellation price over/to the consolidated adjusted NAV per share of the Privatisation Precedents widely ranged from a discount of approximately 53.8% to a premium of 215.3%, with an average premium of approximately 28.3%. The premium offered by the Offer Prices over the consolidated adjusted NAV per Share as at 30 June 2019 of approximately 57.1% is within the range and higher than the average of the Privatisation Precedents.

#### **6. Future prospect and intention of the Offeror**

As stated in the Letter from the Board, following implementation of the Proposal, the Offeror and Charoen Pokphand Group intend that the Company should continue carrying on its current business and do not intend to make any major changes to the current operations, or to discontinue the employment of the employees of the Group nor do they have any plans to redeploy any of the fixed assets of the Group after implementation of the Proposal. The Offeror and Charoen Pokphand Group will continue to monitor the Group's performance and implement appropriate strategies for the Group and its business in light of the challenging environment for retail businesses in the PRC.

As part of the Group's ongoing development, we understand from Management that the Group will continue to expand its marketing channels and mediums, together with opening of new stores to capture market share and optimising of store layouts to improve shopping experience. The Group will continue to develop business-to-business ("B2B") clients based on the stores' geographical network, and to continue with its strategy of e-commerce and platform integration to attract and share offline and online traffic with selected online business partners. Leveraging on the combined strength of the supply chain of Charoen Pokphand Group and stores and logistic network of the Group, the Group expects to continue to develop its B2B businesses with hotels and restaurants, government and institutions customers based on the geographical reach of its stores. The Group expects to continue to invest its IT infrastructure and to install and upgrade appropriate applications such as artificial intelligence, mobile internet as well as computer-based operation software and systems to improve its marketing, customer service and operational capacities and efficiency. Irrespective of the outcome of the Proposal, we understand that the Offeror intends to continue to support the operation of the Company and will seek ways to improve the overall capital structure and efficiency of the Company.

We also understand from the Board that as at the Latest Practicable Date, there is no discussion of the sale of the Company or its underlying businesses with any other parties.

**7. Summary of discussion and analysis**

In arriving at our recommendation in respect of the Proposal, we have considered the principal factors and reasons as discussed above and in particular the following:

- (i) the extended loss making (except for the return to profitability in FY2017) history of the Group and the expansion of stores network in the last five years has not resulted in any significant improvement in consolidated revenue and gross margin over the period;
- (ii) the Company's current financial position would unlikely to allow it to commit substantial investment and capital expenditure to radically grow and transform its business;
- (iii) the Company's unusual funding structure and reliance on financial support of controlling shareholder would render it unattractive to external equity or loan financing providers to support any major investment program;
- (iv) the Company is operated under intense and increasing sector competition and the changing landscape in the China retail industry continues to be challenging for the Company's business;
- (v) the price of the Ordinary Shares was generally underperformed compared to the market over the period under review;
- (vi) the thin trading liquidity of the Ordinary Shares and absence of dividend income on both the Ordinary Shares and the CPS since 1994;
- (vii) the valuation of the Company based on the Offer Prices (a) falls within the range of the market statistics parameters (with the Company registering the highest enterprise multiple) of the Comparable Peers; and (b) is fairly close to, or only 1.7% slightly lower than, the market value ascribed to a market leader in the industry in the refined comparison as set out in Table I; and
- (viii) the P/S ratio and enterprise multiple of the Company compare closely with the corresponding valuation matrices based on the terms of the Carrefour Acquisition.

Based on the above, we consider the Proposal can provide a valuable opportunity for the Independent Ordinary Shareholders and the Independent CPS Holders to realise their investments in the Company, and that the terms of the Proposal are fair and reasonable and in the interests of the Scheme Ordinary Shareholders and the Scheme CPS Holders.

**V.    OPINION AND RECOMMENDATION**

Based on the above discussion and analysis, we consider the terms of the Proposal (including the Ordinary Share Cancellation Price and the CPS Cancellation Price), are fair and reasonable so far as the Independent Ordinary Shareholders and the Independent CPS Holders are concerned. Accordingly, we advise the Independent Board Committee to recommend the Independent Ordinary Shareholders and the Independent CPS Holders to vote in favour of the relevant resolutions to be proposed at the respective Court Meetings and the EGMs to approve and implement the Proposal.

**The Independent Ordinary Shareholders and the Independent CPS Holders are reminded that the Scheme Ordinary Shares and the Scheme CPS will be cancelled at HK\$0.11 in cash. The Offeror has advised that the Ordinary Share Cancellation Price and the CPS Cancellation Price will not be increased in the course of the Proposal and the Offeror does not reserve the right to do so.**

As stated in the Letter from the Board, the implementation of the Ordinary Share Scheme is not conditional on the implementation of the CPS Scheme but implementation of the CPS Scheme is conditional on, and will only be implemented upon, all the Ordinary Share Scheme Conditions being fulfilled (or waived as applicable) on or before the Long Stop Date. Nonetheless, if the Ordinary Share Scheme and/or the CPS Scheme is not approved or the Proposal otherwise lapses, neither the Offeror 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 Ordinary Share Scheme and/or the CPS Scheme is not approved or the Proposal otherwise lapses, announce an offer or possible offer for the Company or propose another proposal to privatise the Company, except with the consent of the Executive.

We note that the Ordinary Share Cancellation Price and the CPS Cancellation Price represent a slight premium of approximately 4.8% compared to the closing price of the Ordinary Shares of HK\$0.105 as at the Latest Practicable Date. There is a possibility that the Ordinary Share price may exceed the Ordinary Share Cancellation Price and the CPS Cancellation Price, in the period up to 8 October 2019, being the expected last day for trading in the Ordinary Shares on the Stock Exchange as set out in the “Expected Timetable” of the Scheme Document. Accordingly, Ordinary Shareholders and CPS Holders who would like to realise their investments in the Company are reminded to monitor the trading price and liquidity of the Ordinary Shares during this period and should, having regard to their own circumstances, consider selling their Ordinary Shares in the open market, or converting their CPS and selling the Ordinary Shares to be issued upon such exercise in the open market, respectively, if the net proceeds obtained from such disposal of the Ordinary Shares (after deducting all transaction costs) would be higher than the net proceeds under the Ordinary Share Scheme and/or the CPS Scheme.

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**PART VI LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

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The CPS Holders are reminded that there will be a time lag between the exercise of the CPS and the receipt of the Ordinary Shares to be issued upon such exercise due to the time required for the administrative procedures for converting the CPS into Ordinary Shares. Accordingly, the CPS Holders who wish to convert their CPS should be mindful of the possible price fluctuations of the Ordinary Shares during the aforesaid time lag. Ordinary Shareholders and CPS Holders should also keep in mind that, if applicable, dealings in the Ordinary Shares will be ceased from 9 October 2019, being the day immediately following the expected last day for trading in the Ordinary Shares on the Stock Exchange, and up to the withdrawal of listing of the Ordinary Shares from the Stock Exchange.

Yours faithfully,  
For and on behalf of  
**Able Capital Partners Limited**

**Ambrose Lam**  
*Director*

**Kenneth Lo**  
*Director, Corporate Finance*

*Mr. Ambrose Lam is a licensed person registered with the Securities and Futures Commission and a responsible officer of Able Capital Partners Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has over 30 years of experience in corporate finance industry.*

*Mr. Kenneth Lo is a licensed person registered with the Securities and Futures Commission and a responsible officer of Able Capital Partners Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has over 5 years of experience in corporate finance industry.*

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

**TWO SCHEMES OF ARRANGEMENT  
(BOTH UNDER SECTION 86 OF THE COMPANIES LAW OF THE CAYMAN ISLANDS)  
TO CANCEL ALL THE SCHEME ORDINARY SHARES AND THE SCHEME CPS**

**1. INTRODUCTION**

On 18 June 2019, the Offeror requested the Board to put forward the Proposal for the privatisation of the Company, which will involve (i) the Ordinary Share Scheme to cancel the Scheme Ordinary Shares and the payment of the Ordinary Share Cancellation Price to Scheme Ordinary Shareholders, and the withdrawal of the listing of the Ordinary Shares on the Stock Exchange; and (ii) the CPS Scheme to cancel the Scheme CPS and the payment of the CPS Cancellation Price to Scheme CPS Holders. Each of the Ordinary Share Scheme and the CPS Scheme will be carried out by way of a scheme of arrangement under Section 86 of the Companies Law. The implementation of the Ordinary Share Scheme is not conditional on the implementation of the CPS Scheme but the CPS Scheme will only be implemented upon the Ordinary Share Scheme becoming unconditional.

If both the Ordinary Share Scheme and the CPS Scheme are approved and the Proposal is implemented, the share capital of the Company will, on the effective date of the Ordinary Share Scheme and the CPS Scheme, be reduced by cancelling and extinguishing the Scheme Ordinary Shares and the Scheme CPS. Upon such reduction, the share capital of the Company will be increased to its former amount by the issuance at par to the Offeror, credited as fully paid, of the aggregate number of Ordinary Shares and CPS as is equal to the number of Scheme Ordinary Shares and Scheme CPS cancelled respectively. 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 Ordinary Shares and new CPS so issued, credited as fully paid, to the Offeror. If only the Ordinary Share Scheme becomes unconditional and implemented, there will not be cancellation of the Scheme CPS and issuance of new CPS.

The purpose of this Explanatory Statement is to set out the terms and effects of the Proposal and to give the Independent Ordinary Shareholders and the Independent CPS Holders other relevant information in relation to the Proposal, in particular, to provide the intentions of the Offeror with regard to the Company and the shareholding structure of the Company before and after the Ordinary Share Scheme and/or the CPS Scheme becoming effective.

Particular attention is drawn to (a) a letter from the Board set out in Part IV of this Scheme Document; (b) a letter of recommendation from the Independent Board Committee set out in Part V of this Scheme Document; (c) a letter of advice from the Independent Financial Adviser set out in Part VI of this Scheme Document; and (d) the Ordinary Share Scheme and CPS Scheme set out in Appendix III and Appendix VI to this Scheme Document respectively.

## 2. THE PROPOSAL

### THE ORDINARY SHARE SCHEME

Under the Ordinary Share Scheme, the Scheme Ordinary Shares will be cancelled and, in consideration thereof, each Scheme Ordinary Shareholder will be entitled to receive the Ordinary Share Cancellation Price, being HK\$0.11 in cash for each Scheme Ordinary Share cancelled.

The total consideration payable to the Scheme Ordinary Shareholders for the Scheme Ordinary Shares cancelled will be paid by the Offeror.

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

The Ordinary Share Cancellation Price of HK\$0.11 per Scheme Ordinary Share cancelled represents:

- a premium of approximately 52.8% over the audited consolidated net asset value (the “NAV”) per Share of approximately HK\$0.072 as at 31 December 2018, calculated based on the NAV of the Group of approximately HK\$1,606.0 million (based on the exchange rate of HK\$1:RMB0.8762, the central parity rate published by the People’s Bank of China on its website as at 28 December 2018 for illustrative purposes) and the 22,317,882,172 Shares in issue as at 31 December 2018;
- a premium of approximately 57.1% over the unaudited consolidated NAV per Share of approximately HK\$0.070 as at 30 June 2019, calculated based on the NAV of the Group of approximately HK\$1,569.2 million (based on the exchange rate of HK\$1:RMB0.8797, the central parity rate published by the People’s Bank of China on its website as at 28 June 2019 for illustrative purposes) and the 22,317,882,172 Shares in issue as at 30 June 2019;
- a premium of approximately 10.0% over the closing price of HK\$0.1 per Ordinary Share as quoted on the Stock Exchange on the Last Trading Day;
- a premium of approximately 12.0% over the average closing price of approximately HK\$0.0982 per Ordinary 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 29.4% over the average closing price of approximately HK\$0.0850 per Ordinary 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 30.3% over the average closing price of approximately HK\$0.0844 per Ordinary 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 26.5% over the average closing price of approximately HK\$0.0870 per Ordinary 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 28.1% over the average closing price of approximately HK\$0.0859 per Ordinary 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 21.9% over the average closing price of approximately HK\$0.0902 per Ordinary 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; and
- a premium of approximately 4.8% over the closing price of HK\$0.105 per Ordinary Share as quoted on the Stock Exchange on the Latest Practicable Date.

The Ordinary Share Cancellation Price has been determined on an arm's length basis after taking into account the financial information of the Group including the financial position of the Group as at 31 December 2018, the prices of the Ordinary Shares traded on the Stock Exchange and other privatization transactions in Hong Kong in recent years.

#### **Trading volume and liquidity of the Ordinary Shares**

The trading volume and liquidity of the Ordinary Shares during the relevant periods prior to and including the Last Trading Day are illustrated below:

- on the Last Trading Day, a total number of approximately 0.89 million Ordinary Shares were traded with a turnover of approximately HK\$86,390;
- during the period from the last 10 trading days up to and including the Last Trading Day, a total number of approximately 8.43 million Ordinary Shares were traded with a turnover of approximately HK\$802,966, an average daily trading volume of approximately 0.84 million Ordinary Shares and average daily turnover of approximately HK\$80,297;
- during the period from the last 30 trading days up to and including the Last Trading Day, a total number of approximately 24.49 million Ordinary Shares were traded with a turnover of approximately HK\$2.04 million, an average daily trading volume of approximately 0.82 million Ordinary Shares and average daily turnover of approximately HK\$67,898;
- during the period from the last 60 trading days up to and including the Last Trading Day, a total number of approximately 32.20 million Ordinary Shares were traded with a turnover of approximately HK\$2.63 million, an average daily trading volume of approximately 0.54 million Ordinary Shares and average daily turnover of approximately HK\$43,776;

- during the period from the last 90 trading days up to and including the Last Trading Day, a total number of approximately 48.64 million Ordinary Shares were traded with a turnover of approximately HK\$4.26 million, an average daily trading volume of approximately 0.54 million Ordinary Shares and average daily turnover of approximately HK\$47,332;
- during the period from the last 120 trading days up to and including the Last Trading Day, a total number of approximately 54.91 million Ordinary Shares were traded with a turnover of approximately HK\$4.74 million, an average daily trading volume of approximately 0.46 million Ordinary Shares and average daily turnover of approximately HK\$39,539;
- during the period from the last 180 trading days up to and including the Last Trading Day, a total number of approximately 66.61 million Ordinary Shares were traded with a turnover of approximately HK\$5.90 million, an average daily trading volume of approximately 0.37 million Ordinary Shares and average daily turnover of approximately HK\$32,770;

During the period from the last 180 trading days up to and including the Last Trading Day, there was no trading of the Ordinary Shares on 87 trading days, representing approximately 48.33% of the total number of trading days during that period.

#### **Ordinary Share Scheme Conditions**

The Ordinary Share Scheme will become effective and binding on the Offeror, the Company and the Scheme Ordinary Shareholders, subject to the fulfilment or waiver (as applicable) of the following Ordinary Share Scheme Conditions:

- (a) the approval of the Ordinary Share Scheme (by way of poll) by a majority in number of the Independent Ordinary Shareholders representing not less than 75% in value of the Ordinary Shares held by the Independent Ordinary Shareholders present and voting either in person or by proxy at the Ordinary Share Court Meeting;
- (b) (i) the Ordinary Share Scheme is approved (by way of poll) by the Independent Ordinary Shareholders holding at least 75% of the votes attaching to the Ordinary Shares held by the Independent Ordinary Shareholders that are voted either in person or by proxy at the Ordinary Share Court Meeting; and (ii) the number of votes cast (by way of poll) by the Independent Ordinary Shareholders present and voting either in person or by proxy at the Ordinary Share Court Meeting against the resolution to approve the Ordinary Share Scheme at the Ordinary Share Court Meeting is not more than 10% of the votes attaching to all Ordinary Shares held by all the Independent Ordinary Shareholders;
- (c) (i) the passing of a special resolution by a majority of not less than three-fourths of the votes cast by the Ordinary Shareholders present and voting in person or by proxy at the Ordinary Share EGM to approve and give effect to the reduction of the number of issued Ordinary Shares in the share capital of the Company by cancelling and extinguishing the Scheme Ordinary Shares, and (ii) the passing of an ordinary resolution by the Ordinary Shareholders at the Ordinary Share EGM to immediately thereafter increase the issued Ordinary Shares to the amount prior to the cancellation of the Scheme Ordinary Shares and



apply the reserve created as a result of the aforesaid cancellation of the Scheme Ordinary Shares to pay up in full at par such number of new Ordinary Shares as is equal to the number of Scheme Ordinary Shares cancelled as a result of the Ordinary Share Scheme, credited as fully paid, for issuance to the Offeror;

- (d) the Grand Court's sanction of the Ordinary Share Scheme (with or without modifications) and its confirmation of the reduction of the number of issued Ordinary Shares in the 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 for registration;
- (e) compliance, to the extent necessary, with the procedural requirements and conditions, if any, under Sections 15 and 16 of the Companies Law in relation to the reduction of the number of issued Ordinary Shares in the share capital of the Company;
- (f) all authorisations, registrations, filings, rulings, consents, opinions, permissions and approvals in connection with the Ordinary Share Scheme required before the Ordinary Share Scheme becoming effective having been obtained from, given by or made with (as the case may be) the Relevant Authorities, in the Cayman Islands, Hong Kong and any other relevant jurisdictions;
- (g) all authorisations, registrations, filings, rulings, consents, opinions, permissions and approvals in connection with the Ordinary Share Scheme required before the Ordinary Share Scheme becoming effective remaining in full force and effect without variation, and all necessary statutory or regulatory obligations in all relevant jurisdictions having been complied with and no requirement having been imposed by any Relevant Authorities which is not expressly provided for, or is in addition to requirements expressly provided for, in relevant laws, rules, regulations or codes in connection with the Ordinary Share Scheme or any matters, documents (including circulars) or things relating thereto, in each aforesaid case up to and at the time when the Ordinary Share Scheme becomes effective;
- (h) all necessary consents which may be required for the implementation of the Ordinary Share Scheme under any existing contractual obligations of the Company being obtained or waived by the relevant party(ies), where any failure to obtain such consent or waiver would have a material adverse effect on the business of the Group;
- (i) no government, governmental, quasi-governmental, statutory or regulatory body, court or agency in any jurisdiction having taken or instituted any action, proceeding, suit, investigation or enquiry or enacted, made or proposed, and there not continuing to be outstanding, any statute, regulation, demand or order that would make the Ordinary Share 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 Ordinary Share Scheme or its implementation in accordance with its terms), other than such actions, proceedings, suits, investigations or enquiries as would not have a material adverse effect on the legal ability of the Offeror to proceed with the Ordinary Share Scheme;

- (j) there being no provision of any arrangement, agreement, licence or other instrument to which any member of the Group is a party or by or to which any of them is or are or may be bound, entitled or subject which as a consequence of the implementation of the Ordinary Share Scheme could or might reasonably result in, to an extent which is material in the context of the Group taken as a whole:
  - (i) any monies borrowed by or other indebtedness (actual or contingent) of any member of the Group being repayable or being capable of being declared payable prior to their stated maturity;
  - (ii) the creation of any mortgage, charge or other security interest over the whole or any material part of the business, property or assets of any member of the Group or any such security (whether arising or having arisen) becoming enforceable; and
  - (iii) any such arrangement, agreement, licence, permit, franchise or other instrument being terminated or adversely modified or any material action being taken or any material obligation arising thereunder; and
- (k) each member of the Group remaining solvent and not being subject to any insolvency or bankruptcy proceedings or likewise and no liquidator, receiver or other person carrying out any similar function having been appointed anywhere in the world in respect of the whole or any substantial part of the assets and undertakings of any member of the Group from the Announcement Date up to the date when all the Ordinary Share Scheme Conditions are satisfied or validly waived (as applicable).

The Offeror reserves the right to waive Ordinary Share Scheme Conditions (f) to (k) either in whole or in part, either generally or in respect of any particular matter. Ordinary Share Scheme Conditions (a) to (e) cannot be waived in any event. Pursuant to Note 2 to Rule 30.1 of the Takeovers Code, the Offeror may only invoke any or all of the Ordinary Share Scheme Conditions as a basis for not proceeding with the Ordinary Share Scheme if the circumstances which give rise to the right to invoke any such Ordinary Share Scheme Condition are of material significance to the Offeror in the context of the Ordinary Share Scheme. The Company has no right to waive any of the Ordinary Share Scheme Conditions. All of the above Ordinary Share Scheme Conditions will have to be fulfilled or waived, as applicable, on or before the Long Stop Date, failing which the Ordinary Share Scheme will lapse. When all the Ordinary Share Scheme Conditions are satisfied or waived (as applicable), the Ordinary Share Scheme may be delivered to the Registrar of Companies in the Cayman Islands at which point it will become effective and binding on the Offeror, the Company and all the Scheme Ordinary Shareholders.

Assuming that the Ordinary Share Scheme Conditions are satisfied or validly waived (as applicable), it is expected that the Ordinary Share Scheme will become effective on or around Thursday, 24 October 2019 (Cayman Islands time). Please refer to the expected timetable set out in Part III of this Scheme Document for further details.

In respect of Ordinary Share Scheme Conditions (f) to (h), the Offeror is not currently aware of any authorisations or consents which are required.

The Offeror is not a party to any agreements or arrangements which relate to circumstances in which it may or may not invoke or seek to invoke any of the Ordinary Share Scheme Conditions. Pursuant to Note 2 to Rule 30.1 of the Takeovers Code, the Offeror will not invoke any Ordinary Share Scheme Condition so as to cause the Ordinary Share Scheme not to become effective unless the circumstances which give rise to the right to invoke the Ordinary Share Scheme Condition are of material significance to the Offeror in the context of the Ordinary Share Scheme.

As at the Latest Practicable Date, none of the Ordinary Share Scheme Conditions have been fulfilled or waived.

### **THE CPS SCHEME**

Under the CPS Scheme, the Scheme CPS will be cancelled and, in consideration thereof, each Scheme CPS Holder will be entitled to receive the CPS Cancellation Price, being HK\$0.11 in cash for each Scheme CPS cancelled.

The total consideration payable to the Scheme CPS Holders for the Scheme CPS cancelled will be payable by the Offeror.

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

The CPS Cancellation Price has been determined on an arm's length basis with reference to the Ordinary Share Cancellation Price.

### **CPS Scheme Conditions**

The CPS Scheme will become effective and binding on the Offeror, the Company and the Scheme CPS Holders, subject to the fulfilment or waiver (as applicable) of the following CPS Scheme Conditions:

- (a) the approval of the CPS Scheme (by way of poll) by a majority in number of the Independent CPS Holders representing not less than 75% in value of the CPS held by the Independent CPS Holders present and voting either in person or by proxy at the CPS Court Meeting;
- (b) (i) the CPS Scheme is approved (by way of poll) by the Independent CPS Holders holding at least 75% of the votes attaching to the CPS held by the Independent CPS Holders that are voted either in person or by proxy at the CPS Court Meeting; and (ii) the number of votes cast (by way of poll) by the Independent CPS Holders present and voting either in person or by proxy at the CPS Court Meeting against the resolution to approve the CPS Scheme at the CPS Court Meeting is not more than 10% of the votes attaching to all CPS held by all the Independent CPS Holders;

- (c) (i) the passing of a special resolution by a majority of not less than three-fourths of the votes cast by the CPS Holders present and voting in person or by proxy at the CPS EGM to approve and give effect to the reduction of the number of issued CPS in the share capital of the Company by cancelling and extinguishing the Scheme CPS, and (ii) the passing of an ordinary resolution by the CPS Holders at the CPS EGM to immediately thereafter increase the issued CPS to the amount prior to the cancellation of the Scheme CPS and apply the reserve created as a result of the aforesaid cancellation of the Scheme CPS to pay up in full at par such number of new CPS as is equal to the number of Scheme CPS cancelled as a result of the CPS Scheme, credited as fully paid, for issuance to the Offeror;
- (d) (i) the passing of a special resolution by a majority of not less than three-fourths of the votes cast by the Ordinary Shareholders present and voting in person or by proxy at the Ordinary Share EGM to approve and give effect to the reduction of the number of issued CPS in the share capital of the Company by cancelling and extinguishing the Scheme CPS, and (ii) the passing of an ordinary resolution by the Ordinary Shareholders at the Ordinary Share EGM to immediately thereafter increase the issued CPS to the amount prior to the cancellation of the Scheme CPS and apply the reserve created as a result of the aforesaid cancellation of the Scheme CPS to pay up in full at par such number of new CPS as is equal to the number of Scheme CPS cancelled as a result of the CPS Scheme, credited as fully paid, for issuance to the Offeror;
- (e) all the Ordinary Share Scheme Conditions having been fulfilled (or waived as applicable) on or before the Long Stop Date;
- (f) the Grand Court's sanction of the CPS Scheme (with or without modifications) and its confirmation of the reduction of the number of issued CPS in the 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 for registration;
- (g) compliance, to the extent necessary, with the procedural requirements and conditions, if any, under Sections 15 and 16 of the Companies Law in relation to the reduction of the number of issued CPS in the share capital of the Company;
- (h) all authorisations, registrations, filings, rulings, consents, opinions, permissions and approvals in connection with the CPS Scheme required before the CPS Scheme becoming effective having been obtained from, given by or made with (as the case may be) the Relevant Authorities, in the Cayman Islands, Hong Kong and any other relevant jurisdictions;
- (i) all authorisations, registrations, filings, rulings, consents, opinions, permissions and approvals in connection with the CPS Scheme remaining required before the CPS Scheme becoming effective in full force and effect without variation, and all necessary statutory or regulatory obligations in all relevant jurisdictions having been complied with and no

requirement having been imposed by any Relevant Authorities which is not expressly provided for, or is in addition to requirements expressly provided for, in relevant laws, rules, regulations or codes in connection with the CPS Scheme or any matters, documents (including circulars) or things relating thereto, in each aforesaid case up to and at the time when the CPS Scheme becomes effective;

- (j) all necessary consents which may be required for the implementation of the CPS Scheme under any existing contractual obligations of the Company being obtained or waived by the relevant party(ies), where any failure to obtain such consent or waiver would have a material adverse effect on the business of the Group;
- (k) no government, governmental, quasi-governmental, statutory or regulatory body, court or agency in any jurisdiction having taken or instituted any action, proceeding, suit, investigation or enquiry or enacted, made or proposed, and there not continuing to be outstanding, any statute, regulation, demand or order that would make the CPS 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 CPS Scheme or its implementation in accordance with its terms), other than such actions, proceedings, suits, investigations or enquiries as would not have a material adverse effect on the legal ability of the Offeror to proceed with the CPS Scheme;
- (l) there being no provision of any arrangement, agreement, licence or other instrument to which any member of the Group is a party or by or to which any of them is or are or may be bound, entitled or subject which as a consequence of the implementation of the CPS Scheme or because of a change in control or management of the Company could or might reasonably result in, to an extent which is material in the context of the Group taken as a whole:
  - (i) any monies borrowed by or other indebtedness (actual or contingent) of any member of the Group being repayable or being capable of being declared payable prior to their stated maturity;
  - (ii) the creation of any mortgage, charge or other security interest over the whole or any material part of the business, property or assets of any member of the Group or any such security (whether arising or having arisen) becoming enforceable; and
  - (iii) any such arrangement, agreement, licence, permit, franchise or other instrument being terminated or adversely modified or any material action being taken or any material obligation arising thereunder; and
- (m) each member of the Group remaining solvent and not being subject to any insolvency or bankruptcy proceedings or likewise and no liquidator, receiver or other person carrying out any similar function having been appointed anywhere in the world in respect of the whole or any substantial part of the assets and undertakings of any member of the Group from the Announcement Date up to the date when all the CPS Scheme Conditions are satisfied or validly waived (as applicable).

The Offeror reserves the right to waive CPS Scheme Conditions (h) to (m) either in whole or in part, either generally or in respect of any particular matter. CPS Scheme Conditions (a) to (g) cannot be waived in any event. Pursuant to Note 2 to Rule 30.1 of the Takeovers Code, the Offeror may only invoke any or all of the CPS Scheme Conditions as a basis for not proceeding with the CPS Scheme if the circumstances which give rise to the right to invoke any such CPS Scheme Condition are of material significance to the Offeror in the context of the CPS Scheme. The Company has no right to waive any of the CPS Scheme Conditions. All of the above CPS Scheme Conditions will have to be fulfilled or waived, as applicable, on or before the Long Stop Date, failing which the CPS Scheme will lapse. When all the CPS Scheme Conditions are satisfied or waived (as applicable), the CPS Scheme may be delivered to the Registrar of Companies in the Cayman Islands at which point it will become effective and binding on the Offeror, the Company and all the Scheme CPS Holders.

Assuming that the CPS Scheme Conditions are satisfied or validly waived (as applicable), it is expected that the CPS Scheme will become effective on or around Thursday, 24 October 2019 (Cayman Islands time). Please refer to the expected timetable set out in Part III of this Scheme Document for further details.

In respect of CPS Scheme Condition (h) to (j), the Offeror is not currently aware of any authorisations or consents which are required.

The Offeror is not a party to any agreements or arrangements which relate to circumstances in which it may or may not invoke or seek to invoke any of the CPS Scheme Conditions. Pursuant to Note 2 to Rule 30.1 of the Takeovers Code, the Offeror will not invoke any CPS Scheme Condition so as to cause the CPS Scheme not to become effective unless the circumstances which give rise to the right to invoke the CPS Scheme Condition are of material significance to the Offeror in the context of the CPS Scheme.

As at the Latest Practicable Date, none of the CPS Scheme Conditions have been fulfilled or waived.

## **PROPOSAL**

As mentioned above, the implementation of the Ordinary Share Scheme is not conditional on the implementation of the CPS Scheme but the CPS Scheme is conditional on, and will only be implemented upon, all the Ordinary Share Scheme Conditions being fulfilled (or waived as applicable) on or before the Long Stop Date. Pursuant to Note 3 to Rule 14 of the Takeovers Code, an offer for one class of equity share capital must be conditional on the offers for other classes of equity share capital becoming or being declared unconditional. The Offeror has made an application to the Executive for, and the Executive has granted, a waiver from the requirement under Note 3 to Rule 14 of the Takeovers Code such that the Ordinary Share Scheme will not be conditional on the CPS Scheme becoming or being declared unconditional.

Ordinary Shares directly or indirectly held by the Principal Offeror Concert Party as at the Scheme Ordinary Share Record Time on the Scheme Ordinary Share Record Date do not count as Scheme Ordinary Shares.

If all the Ordinary Share Scheme Conditions are fulfilled (or waived as applicable) on or before the Long Stop Date, the Offeror will implement the Ordinary Share Scheme to cancel the Scheme Ordinary Shares and the Company will apply to the Stock Exchange for the withdrawal of listing of the Ordinary Shares on the Stock Exchange.

Subject to the fulfilment (or waiver, as applicable) of all the CPS Scheme Conditions, the Offeror will also implement the CPS Scheme to cancel the Scheme CPS. If only the Ordinary Share Scheme has become unconditional but not the CPS Scheme on or before the Long Stop Date, the Offeror will only implement the Ordinary Share Scheme. In this case, the Company will also apply to the Stock Exchange for the withdrawal of listing of the Ordinary Shares on the Stock Exchange.

The implementation of the CPS Scheme is subject to CPS Scheme Condition (e) which requires all the Ordinary Share Scheme Conditions having been fulfilled (or waived as applicable) on or before the Long Stop Date. If the Ordinary Share Scheme does not become unconditional on or before the Long Stop Date, the Proposal will not be implemented and both the Ordinary Share Scheme and the CPS Scheme will not become effective.

**Warnings:**

**Shareholders and potential investors of the Company should be aware that the implementation of each of the Ordinary Share Scheme and the CPS Scheme is subject to the Ordinary Share Scheme Conditions and the CPS Scheme Conditions being, respectively, fulfilled or waived, as applicable, and thus the Ordinary Share Scheme and/or the CPS Scheme may or may not be implemented and the Ordinary Share Scheme and/or the CPS Scheme may or may not become effective. Shareholders and potential investors of the Company 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.**

**3. REASONS FOR AND BENEFITS OF THE PROPOSAL**

The principal activity of the Group is the operation of hypermarket stores in the PRC. All revenue from external customers is generated in the PRC and all the significant operating assets of the Group are located in the PRC. As at 30 June 2019, the Group operated 87 retail stores and three shopping centres under the brand name ‘Lotus’.

The Group made a profit of approximately RMB40.1 million for the six months ended 30 June 2019 (for the six months ended 30 June 2018: net profit of approximately RMB137.7 million). The decrease of approximately RMB97.6 million was mainly due to the impact from the adoption of HKFRS16 at 1 January 2019, which reduced the total profit by approximately RMB79.4 million. While continuing efforts are being made to expand store network, optimise merchandise and sales space, enhance relationship with suppliers and improve operation efficiency, the Group continues to face challenges to its business and the profitability of its operations.

In putting the Proposal forward, the Offeror has taken into account the following principal factors, as set out below:

**(1) Capital structure and financial position of the Group**

The Group's consolidated statement of financial position as at 30 June 2019 showed limitations on the Group's sources of funding. As at that date, the Group had:

- (i) net current liabilities of approximately RMB1.9 billion;
- (ii) United States dollar loans from its controlling shareholder equivalent to almost RMB1.0 billion, which are unsecured and expiring in December 2020; and
- (iii) approximately 11.3 billion Convertible Preference Shares in issue, almost all of which were held by the controlling shareholder, convertible into Ordinary Shares on a one-for-one basis (subject to public float requirements). Full conversion of the Convertible Preference Shares would approximately double the Ordinary Shares in issue.

These features are unusual for a public company and, taken overall, may limit the Group's options in satisfying its future funding requirements in a cost effective manner. The Proposal, once implemented, would simplify and strengthen the Group's financial position.

**(2) Marketability and price performance of the Ordinary Shares**

There has not been an active market for the Ordinary Shares. In the last 180 trading days up to the Announcement Date, there was no trading in the Ordinary Shares on the Stock Exchange on 87 trading days. The average daily trading volume over the last 180 trading days up to the Announcement Date was approximately 0.37 million Ordinary Shares, representing just approximately 0.01% of the Ordinary Shares held by Ordinary Shareholders other than the Offeror, the Principal Offeror Concert Party and the Other Offeror Concert Parties, and the average daily turnover was approximately HK\$32,770, please refer to the section headed "Trading volume and liquidity of the Ordinary Shares" for further details. The market price of the Ordinary Shares has declined in 2018 and did not materially improve even during relevant periods of relative market strength such as the first quarter of 2019.

The Proposal provides the Scheme Ordinary Shareholders with an opportunity to realise their illiquid investment in the Company at a healthy premium over the prevailing marketing price and the net book value of the Company.



**(3) Costs and expenses of maintaining the Company's listed status**

To maintain its listed status, the Company faces administrative and compliance burdens and related costs and expenses. Due to illiquidity and underperformance in the trading of the Ordinary Shares, the Company has difficulty raising funds through equity financing, and the Offeror believes the position is unlikely to improve significantly in the near term. As such, administrative and compliance costs and management resources associated with maintaining the Company's listing status are no longer justified.

Furthermore, following the implementation of the Proposal, the Offeror and the Company can make strategic decisions free from the pressure of market expectations, short-term profit visibility and share price fluctuation as a publicly listed company. The management of the Company can also utilise the resources which would otherwise go towards administrative, compliance and other listing-related matters on business operations of the Group.

Accordingly, the Offeror has decided to put forward the Proposal, in particular the Ordinary Share Scheme, to the Scheme Ordinary Shareholders on the basis of a cash consideration of HK\$0.11 per Scheme Ordinary Share cancelled. The Offeror considers that the Proposal provides an attractive opportunity to Scheme Ordinary Shareholders to realise their investment at a price which is substantially higher than the net book value per share by 57.1% based on the unaudited financial statements as of 30 June 2019 and higher than the recent average market prices, with premia in the range of 10.0% to 30.3% on the bases set out above. A fixed cash consideration avoids the illiquidity discount which is likely to arise if significant number of Ordinary Shareholders tried to sell in the market. The Company has not distributed any dividend since 1994 so the Scheme Ordinary Shareholders can reinvest the cash proceeds in income earning securities if they so wish. The Company does not expect to declare or distribute any dividends before the Effective Date.

Given the Company will apply for the withdrawal of listing of the Ordinary Shares on the Stock Exchange after the Ordinary Share Scheme becoming effective, the Offeror, pursuant to Rule 14 of the Takeovers Code, proposes to implement the CPS Scheme so that the Scheme CPS Holders can also realise their investments in the unlisted CPS on a similar price basis to the Ordinary Share Scheme if the CPS Scheme becomes effective.

**4. TOTAL CONSIDERATION AND FINANCIAL RESOURCES**

The Proposal will involve the cancellation of the Scheme Ordinary Shares at the Ordinary Share Cancellation Price of HK\$0.11 per Scheme Ordinary Share cancelled and the cancellation of the Scheme CPS at the CPS Cancellation Price of HK\$0.11 per Scheme CPS cancelled. As at the Latest Practicable Date, there are 11,019,072,390 Ordinary Shares and 3,671,509,764 CPS in issue, and there are 3,864,272,973 Scheme Ordinary Shares and 3,607,800 Scheme CPS in issue. Except for the Convertible Preference Shares, there are no outstanding warrants, derivatives or other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) issued by the Company that carry a right to subscribe for or which are convertible into Ordinary Shares.

Assuming no CPS are converted into Ordinary Shares before the Scheme Record Date, the amounts of cash required for the implementation of the Ordinary Share Scheme and the CPS Scheme are approximately HK\$425.1 million and approximately HK\$0.4 million respectively. If all the CPS (other than those held by the Offeror) are converted into Ordinary Shares before the Scheme Record Date, there will be a maximum of 3,867,880,773 Scheme Ordinary Shares subject to the Ordinary Share Scheme and the maximum amount of cash required for the implementation of the Ordinary Share Scheme is approximately HK\$425.5 million whereas no cash will be required for the CPS Scheme.

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

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

The Offeror intends to finance the cash required for the implementation of Proposal from a loan facility. Somerley Capital, the financial adviser to the Offeror, is satisfied that sufficient financial resources are available to the Offeror for discharging its obligations in respect of the full implementation of the Proposal.

**5. SHAREHOLDING STRUCTURE OF THE COMPANY**

As at the Latest Practicable Date, the authorised share capital of the Company is HK\$940,000,000 divided into 34,000,000,000 Ordinary Shares, 2,000,000,000 Series A Convertible Preference Shares, 4,000,000,000 Series B Convertible Preference Shares, 4,500,000,000 CPS and 2,500,000,000 Series D Convertible Preference Shares, and as at the Latest Practicable Date the Company has 11,019,072,390 Ordinary Shares, 1,518,807,075 Series A Convertible Preference Shares, 3,897,110,334 Series B Convertible Preference Shares, 3,671,509,764 CPS and 2,211,382,609 Series D Convertible Preference Shares in issue.

The table below sets out the simplified shareholding structure of the Company (i) as at the Latest Practicable Date; and (ii) on the basis that both the Ordinary Share Scheme and the CPS Scheme become effective, immediately upon completion of the Proposal, assuming (a) no CPS are converted into Ordinary Shares before the Scheme Record Date; and (b) all the CPS (other than those held by the Offeror) are converted into Ordinary Shares before the Scheme Record Date:

Ordinary Shareholders and holders of Convertible Preference Shares	As at the Latest Practicable Date		Upon completion of the Proposal assuming no CPS are converted into Ordinary Shares before the Scheme Record Date		Upon completion of the Proposal assuming all the CPS (other than those held by the Offeror) are converted into Ordinary Shares before the Scheme Record Date	
	Number of Shares	%	Number of Shares	%	Number of Shares	%
<b><i>The Ordinary Shares</i></b>						
<b>Offeror and the parties acting in concert or presumed to be acting in concert with it</b>						
Offeror	6,788,319,021	61.61	10,652,591,994	96.67	10,656,199,794	96.68
Principal Offeror Concert Party (Note 1)	366,480,396	3.33	366,480,396	3.33	366,480,396	3.32
<b>Aggregate number of Ordinary Shares of the Offeror and the Principal Offeror Concert Party</b>	7,154,799,417	64.94	11,019,072,390	100.00	11,022,680,190	100.00
<b>Other Offeror Concert Parties</b>						
Mr. Soopakij Chearavanont (Note 2)	183,240,198	1.66	—	—	—	—
Mr. Narong Chearavanont (Note 2)	183,240,198	1.66	—	—	—	—
Mr. Suphachai Chearavanont (Note 2)	122,160,132	1.09	—	—	—	—
Mr. Chatchaval Jiaravanon (Note 3)	61,080,066	0.56	—	—	—	—
Mr. Kachorn Chiaravanont (Note 4)	61,080,066	0.56	—	—	—	—
Mr. Yang Xiaoping (Note 2)	183,240,198	1.66	—	—	—	—
Mr. Meth Jiaravanont (Note 2)	61,080,066	0.56	—	—	—	—
Mr. Umroong Sanphasitvong (Note 2)	61,080,066	0.56	—	—	—	—
Mr. Robert Ho Ping-Hsien (Note 5)	183,240,198	1.66	—	—	—	—
	1,099,441,188	9.97	—	—	—	—
<b>Aggregate number of Ordinary Shares of the Offeror, Principal Offeror Concert Party and Other Offeror Concert Parties</b>	8,254,240,605	74.91	11,019,072,390	100.00	11,022,680,190	100.00
Other Ordinary Shareholders	2,764,831,785	25.09	—	—	—	—
<b>Total number of Ordinary Shares</b>	<b>11,019,072,390</b>	<b>100.00</b>	<b>11,019,072,390</b>	<b>100.00</b>	<b>11,022,680,190</b>	<b>100.00</b>

Ordinary Shareholders and holders of Convertible Preference Shares	As at the Latest Practicable Date		Upon completion of the Proposal assuming no CPS are converted into Ordinary Shares before the Scheme Record Date		Upon completion of the Proposal assuming all the CPS (other than those held by the Offeror) are converted into Ordinary Shares before the Scheme Record Date	
	Number of Shares	%	Number of Shares	%	Number of Shares	%
<b>Scheme Ordinary Shares represent:</b>						
Other Offeror Concert Parties	1,099,441,188	9.97				
Other Ordinary Shareholders	2,764,831,785	25.09				
	<u>3,864,272,973</u>	<u>35.06</u>				
<b><u>Convertible Preference Shares</u></b>						
<b>CPS</b>						
Offeror	3,667,901,964	99.90	3,671,509,764	100.00	3,667,901,964	100.00
Other CPS Holders/Scheme CPS Holders	3,607,800	0.10	—	—	—	—
<b>Total number of CPS</b>	<u>3,671,509,764</u>	<u>100.00</u>	<u>3,671,509,764</u>	<u>100.00</u>	<u>3,667,901,964</u>	<u>100.00</u>
<b>Other Convertible Preference Shares</b>						
Offeror	7,627,300,018	100.00	7,627,300,018	100.00	7,627,300,018	100.00
Total number of other Convertible Preference Shares	<u>7,627,300,018</u>	<u>100.00</u>	<u>7,627,300,018</u>	<u>100.00</u>	<u>7,627,300,018</u>	<u>100.00</u>
<b>Aggregate number of Convertible Preference Shares</b>	<u>11,298,809,782</u>	<u>100.00</u>	<u>11,298,809,782</u>	<u>100.00</u>	<u>11,295,201,982</u>	<u>100.00</u>

*Notes:*

1. The Ordinary Shares are held by the Principal Offeror Concert Party which is wholly owned by Charoen Pokphand Holding Company Limited, which itself is owned as to 99.99% by Charoen Pokphand Group.
2. Each of Mr. Soopakij Chearavanont, Mr. Narong Chearavanont, Mr. Suphachai Chearavanont, Mr. Yang Xiaoping, Mr. Meth Jiaravanont and Mr. Umroong Sanphasitvong is an executive Director of the Company.
3. Mr. Chatchaval Jiaravanon is a close relative of the Offeror's director.
4. Mr. Kachorn Chiaravanont is a close relative of a director of the Offeror's parent company.
5. Mr. Robert Ho Ping-Hsien is a director of the Offeror's parent company.
6. All percentages in the above table are approximations.

As at the Latest Practicable Date, other than a total of 11,298,809,782 Convertible Preference Shares, there are no options, warrants or convertible securities in respect of the Ordinary Shares held, controlled or directed by the Offeror and parties acting in concert with it or presumed to be acting in concert with it, or outstanding derivatives in respect of the Ordinary Shares entered into by the Offeror and parties acting in concert with it or presumed to be acting in concert with it. Save for the Convertible Preference Shares, the Company does not have in issue any warrants, options, derivatives, convertible securities or other securities convertible into Ordinary Shares as at the Latest Practicable Date.

#### **6. OFFEROR'S INTENTION REGARDING THE COMPANY**

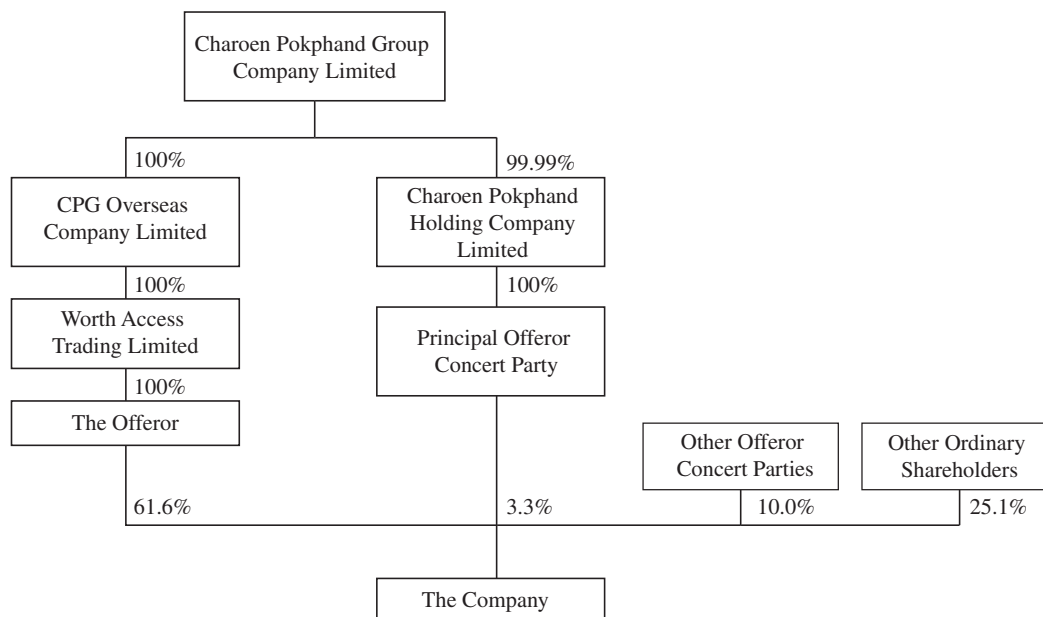
The Company is incorporated in the Cayman Islands with limited liability and the Company (including its predecessor) has been listed on the Main Board of the Stock Exchange since 27 March 1981 with the stock code 121. The Group is principally engaged in the operation of large scale hypermarket stores located in the northern, southern and eastern parts of China.

Following implementation of the Proposal, the Offeror and Charoen Pokphand Group intend that the Company should continue carrying on its current business and do not intend to make any major changes to the current operations. The Offeror and Charoen Pokphand Group will continue to monitor the Group's performance and implement appropriate strategies for the Group and its business in light of the challenging environment for retail businesses in the PRC.

#### **7. INFORMATION ON THE OFFEROR**

The Offeror is a company incorporated in the British Virgin Islands which is indirectly and wholly-owned by Charoen Pokphand Group, the ultimate controlling shareholder of the Company. Charoen Pokphand Group is the holding company of a group of companies which is a leading conglomerate in Asia with over 90 years of operating experience in various industries including agro-industry & food, retail and telecom. The principal activity of the Offeror is investment holding.

Set out below is the shareholding structure of the Company as at the Latest Practicable Date:



Accordingly, Worth Access Trading Limited, CPG Overseas Company Limited, Charoen Pokphand Group, Charoen Pokphand Holding Company Limited and the Principal Offeror Concert Party are parties acting in concert with the Offeror under class (1) of the definition of “acting in concert” in the Takeovers Code.

As at the Latest Practicable Date, the directors of the Offeror are Mr. Dhanin Chearavanont, Mr. Sumet Jiaravanon, Mr. Min Tianworn, Mr. Thirayut Phitya-Isarakul and Mr. Veeravat Kanchanadul, who are presumed to be acting in concert with the Offeror under class (6) of the definition of “acting in concert” in the Takeovers Code.

## 8. INDEPENDENT BOARD COMMITTEE

An Independent Board Committee comprising all of the independent non-executive Directors has been established by the Board to make a recommendation to the Independent Ordinary Shareholders and the Independent CPS Holders as to whether the terms of the Ordinary Share Scheme and the CPS Scheme (as the case may be) are, or are not, fair and reasonable and as to voting.

The executive Directors of the Company, except Mr. Li Wen Hai, who have or may have a material interest in the Proposal and have not participated in any vote, will continue to abstain from voting at meetings of the Board in relation to the Proposal, the Ordinary Share Scheme and the CPS Scheme. Mr. Li Wen Hai, being the only executive Director of the Company who is not required to abstain from voting, believes that the terms of the Proposal, the Ordinary Share Scheme and the CPS Scheme are fair and reasonable and in the interests of the Scheme Ordinary Shareholders and the Scheme CPS Holders respectively. The Independent Board Committee, comprising all of the independent non-executive Directors of the Company, has given its recommendation as set out in Part V of this Scheme Document after taking into account the advice of the Independent Financial Adviser.

The Independent Ordinary Shareholders and the Independent CPS Holders are reminded to carefully read this Scheme Document, including the letter of advice from the Independent Financial Adviser to the Independent Board Committee contained therein before making a decision.

#### **9. INDEPENDENT FINANCIAL ADVISER TO THE INDEPENDENT BOARD COMMITTEE**

The Independent Financial Adviser has been appointed (with the approval of the Independent Board Committee) to advise the Independent Board Committee in connection with the Proposal, the Ordinary Share Scheme and the CPS Scheme. The full text of the letter from the Independent Financial Adviser is set out in Part VI of this Scheme Document.

#### **10. WITHDRAWAL OF LISTING OF ORDINARY SHARES**

Upon the Ordinary Share Scheme becoming effective, all Scheme Ordinary Shares will be cancelled and the share certificates for the Scheme Ordinary 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 Ordinary Shares on the Stock Exchange immediately following the Ordinary Share Scheme becoming effective in accordance with Rule 6.15(2) of the Listing Rules. The Ordinary Shareholders will be notified by way of an announcement of the exact date of the last day for dealing in the Ordinary Shares and on which the Ordinary Share Scheme and the withdrawal of the listing of the Ordinary Shares on the Stock Exchange will become effective. A detailed timetable of the Ordinary Share Scheme is set out in Part III of this Scheme Document, which contains, inter alia, further details of the Ordinary Share Scheme.

The Company will be privatised by way of two schemes of arrangement (both under section 86 of the Companies Law of the Cayman Islands) in compliance with the Takeovers Code and all the relevant requirements, and it is the Company's intention not to retain its listing on the Stock Exchange after implementation of the Proposal.

#### **11. IF THE ORDINARY SHARE SCHEME AND/OR THE CPS SCHEME IS NOT APPROVED OR OTHERWISE LAPSES**

Subject to the requirements of the Takeovers Code, the Ordinary Share Scheme will lapse if any of the Ordinary Share Scheme Conditions has not been fulfilled or waived, as applicable, on or before the Long Stop Date. The listing of the Ordinary Shares on the Stock Exchange will not be withdrawn if the Ordinary Share Scheme does not become effective.

If the Ordinary Share Scheme is not approved or otherwise lapses, there are restrictions under the Takeovers Code on making subsequent offers, to the effect that neither the Offeror 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 Ordinary Share Scheme is not approved or otherwise lapses, announce an offer or possible offer for the Company, except with the consent of the Executive.

Subject to the requirements of the Takeovers Code, the CPS Scheme will lapse if any of the CPS Scheme Conditions has not been fulfilled or waived, as applicable, on or before the Long Stop Date.

If the CPS Scheme is not approved or otherwise lapses, there are restrictions under the Takeovers Code on making subsequent offers, to the effect that neither the Offeror 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 CPS Scheme is not approved or otherwise lapses, announce an offer or possible offer for the Company, except with the consent of the Executive.

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

## **12. OVERSEAS SCHEME ORDINARY SHAREHOLDERS AND SCHEME CPS HOLDERS**

The making and implementation of the Proposal to Scheme Ordinary Shareholders and Scheme CPS Holders who are not resident in Hong Kong may be subject to the laws of the relevant jurisdictions in which such Scheme Ordinary Shareholders and Scheme CPS Holders are located. Such Scheme Ordinary Shareholders and Scheme CPS Holders should inform themselves about and observe any applicable legal, tax or regulatory requirements. It is the responsibility of any overseas Scheme Ordinary Shareholders and Scheme CPS Holders wishing to take any action in relation to the Proposal 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 other necessary formalities and the payment of any issue, transfer or other taxes due in such jurisdiction.

Scheme Ordinary Shareholders and Scheme CPS Holders are recommended to consult their own professional advisers if they are in any doubt as to the taxation implications of accepting the Proposal. It is emphasized that none of the Offeror, the Company, parties acting in concert with them or presumed to be acting in concert with them and their respective advisers or any of their respective directors, officers or associates or any other person involved in the Proposal accepts any responsibility whatsoever for any taxation effects on, or liabilities of, any persons as a result of their acceptance or rejection of the Proposal.

## **13. SCHEME ORDINARY SHARES, SCHEME CPS, ORDINARY SHARE COURT MEETING, CPS COURT MEETING, ORDINARY SHARE EGM AND CPS EGM**

As at the Latest Practicable Date, the Offeror, the Principal Offeror Concert Party and the Other Offeror Concert Parties hold an aggregate of 8,254,240,605 Ordinary Shares representing approximately 74.91% of the total number of issued Ordinary Shares in the share capital of the Company. The Ordinary Shares held by the Offeror and the Principal Offeror Concert Party (being an aggregate of 7,154,799,417 Ordinary Shares representing approximately 64.94% of the total number of issued Ordinary Shares in the share capital of the Company) will not constitute Scheme Ordinary Shares. The Offeror, the Principal Offeror Concert Party and the Other Offeror Concert Parties will not vote on the Ordinary Share Scheme at the Ordinary Share Court Meeting.



As at the Latest Practicable Date, the Offeror holds an aggregate of 3,667,901,964 CPS representing approximately 99.90% of the total number of issued CPS in the share capital of the Company. Such CPS will not constitute Scheme CPS and the Offeror will not vote on the CPS Scheme at the CPS Court Meeting.

Each of the Offeror Concert Parties has undertaken to the Grand Court that it/he will be bound by the Ordinary Share Scheme and the CPS Scheme, so as to ensure that it/he will comply with and be subject to the terms and conditions of the Ordinary Share Scheme and the CPS Scheme.

Somerley Capital is presumed to be acting in concert with the Offeror under class (5) of the definition of “acting in concert” in the Takeovers Code. As at the Latest Practicable Date, no Shares are owned, controlled or directed by Somerley Capital.

All Ordinary Shareholders will be entitled to attend the Ordinary Share EGM and vote on, among other things, (i) a special resolution to approve and give effect to the reduction of the number of issued Ordinary Shares in the share capital of the Company by cancelling and extinguishing the Scheme Ordinary Shares, (ii) an ordinary resolution to immediately thereafter increase the number of issued Ordinary Shares in the share capital of the Company to the amount prior to the cancellation of the Scheme Ordinary Shares and apply the reserve created as a result of the aforesaid cancellation of the Scheme Ordinary Shares to pay up in full at par such number of new Ordinary Shares as is equal to the number of Scheme Ordinary Shares cancelled as a result of the Ordinary Share Scheme, credited as fully paid, for issuance to the Offeror, (iii) a special resolution to approve and give effect to the reduction of the number of issued CPS in the share capital of the Company by cancelling and extinguishing the Scheme CPS, and (iv) an ordinary resolution to immediately thereafter increase the number of issued CPS in the share capital of the Company to the amount prior to the cancellation of the Scheme CPS and apply the reserve created as a result of the aforesaid cancellation of the Scheme CPS to pay up in full at par such number of new CPS as is equal to the number of Scheme CPS cancelled as a result of the CPS Scheme, credited as fully paid, for issuance to the Offeror.

All CPS Holders will be entitled to attend the CPS EGM and vote on, among other things, (i) a special resolution to approve and give effect to the reduction of the number of issued CPS in the share capital of the Company by cancelling and extinguishing the Scheme CPS, and (ii) an ordinary resolution to immediately thereafter increase the number of issued CPS in the share capital of the Company to the amount prior to the cancellation of the Scheme CPS and apply the reserve created as a result of the aforesaid cancellation of the Scheme CPS to pay up in full at par such number of new CPS as is equal to the number of Scheme CPS cancelled as a result of the CPS Scheme, credited as fully paid, for issuance to the Offeror.

The Offeror and the Principal Offeror Concert Party have undertaken that if the Ordinary Share Scheme and the CPS Scheme are approved at the Ordinary Share Court Meeting and CPS Court Meeting (as the case may be), they will cast the votes in respect of those Ordinary Shares and the CPS held by them in favour of the resolutions to be proposed at the Ordinary Share EGM and the CPS EGM (as the case may be).

**14. COSTS OF THE ORDINARY SHARE SCHEME AND THE CPS SCHEME**

In light of the recommendation of the Independent Board Committee as set out in Part V of this Scheme Document and the recommendation of the Independent Financial Adviser as set out in Part VI of this Scheme Document, Rule 2.3 of the Takeovers Code is not applicable. The Offeror and the Company have agreed that all costs, charges and expenses of the advisers and counsels appointed by the Company, including the Independent Financial Adviser, will be borne by the Company, all costs, charges and expenses of the advisers and counsels appointed by Offeror will be borne by the Offeror, and other costs, charges and expenses of the Proposal incurred by each of the Offeror and the Company will be borne by them respectively.

**15. GENERAL**

The Offeror has appointed Somerley Capital as its financial adviser in connection with the Proposal.

There are no arrangements (whether by way of option, indemnity or otherwise) in relation to Ordinary Shares and/or the CPS between the Offeror and parties acting in concert with it or presumed to be acting in concert with it and any other person which might be material to the Proposal.

There are no agreements or arrangements to which the Offeror is a party which relate to the circumstances in which it may or may not invoke or seek to invoke an Ordinary Share Scheme Condition and/or a CPS Scheme Condition.

The Offeror and parties acting in concert with it or presumed to be acting in concert with it have not borrowed or lent any Ordinary Shares, Convertible Preference Shares or any other securities of the Company as at the Latest Practicable Date.

As at the Latest Practicable Date, there are no options, warrants or convertible securities in respect of the Ordinary Shares held, controlled or directed by the Offeror and parties acting in concert with it or presumed to be acting in concert with it (other than 1,518,807,075 Series A Convertible Preference Shares, 3,897,110,334 Series B Convertible Preference Shares, 3,667,901,964 CPS and 2,211,382,609 Series D Convertible Preference Shares held by the Offeror), or outstanding derivatives in respect of the Ordinary Shares entered into by the Offeror and parties acting in concert with it or presumed to be acting in concert with it. No irrevocable commitment to vote for or against the Ordinary Share Scheme and/or the CPS Scheme has been received by the Offeror and parties acting in concert with it or presumed to be acting in concert with it, as at the Latest Practicable Date.

As at the Latest Practicable Date, there is no understanding, arrangement or agreement or special deal between any Shareholders and the Offeror and any party acting in concert with it. The Company confirms that, as at the Latest Practicable Date, there is no understanding, arrangement or agreement or special deal between any Shareholders on the one hand, and the Company, its subsidiaries or associated companies on the other hand.

**16. COURT MEETINGS AND EGMS**

In accordance with the direction of the Cayman Islands Grand Court, the Ordinary Share Court Meeting will be held for the purpose of considering and, if thought fit, passing the resolution to approve the Ordinary Share Scheme (with or without modification(s)). All Independent Ordinary Shareholders whose names appear on the register of members of the Company as at the Meeting Record Date will be entitled to attend and vote on the Ordinary Share Scheme at the Ordinary Share Court Meeting in person or by proxy. The Offeror, the Principal Offeror Concert Party and the Other Offeror Concert Parties will not vote on the Ordinary Share Scheme at the Ordinary Share Court Meeting.

In accordance with the direction of the Cayman Islands Grand Court, the CPS Court Meeting will be held for the purpose of considering and, if thought fit, passing the resolution to approve the CPS Scheme (with or without modification(s)). All Independent CPS Shareholders whose names appear on the register of members of the Company as at the Meeting Record Date will be entitled to attend and vote on the CPS Scheme at the CPS Court Meeting in person or by proxy. The Offeror will not vote on the CPS Scheme at the CPS Court Meeting.

In accordance with the direction from the Grand Court, HKSCC Nominees Limited shall be permitted to vote once for and once against the Ordinary Share Scheme and/or the CPS Scheme in accordance with the instructions received by it from the Investor Participants and other CCASS Participants. For the purpose of calculating the “majority in number”, HKSCC Nominees Limited shall be counted as a multi-headed Shareholder voting once “for” and once “against” the Ordinary Share Scheme or the CPS Scheme (as the case may be). The number of votes cast in favour of the Ordinary Share Scheme or the CPS Scheme (as the case may be) and the number of CCASS Participants on whose instructions they are cast and the number of votes cast against the Ordinary Share Scheme or the CPS Scheme (as the case may be) and the number of CCASS Participants on whose instructions they are cast will be disclosed to the Grand Court and may be taken into account in deciding whether or not the Grand Court should exercise its discretion to sanction the Ordinary Share Scheme or the CPS Scheme (as the case may be).

In accordance with the Companies Law, the “75% in value” requirement will be met if the total value of the Shares being voted in favour of the Ordinary Share Scheme or the CPS Scheme (as the case may be) is at least 75% of the total value of the Shares voted at the relevant Court Meeting. In accordance with the Companies Law, the “majority in number” requirement will be met if the number of the Independent Ordinary Shareholders/Independent CPS Holders (as the case may be) voting in favour of the Ordinary Share Scheme/CPS Scheme (as the case may be) exceeds the number of the Independent Ordinary Shareholders/Independent CPS Holders (as the case may be) voting against the Ordinary Share Scheme/CPS Scheme (as the case may be). For the purpose of calculating the “majority in number” requirement, the number of the Independent Ordinary Shareholders/Independent CPS Holders (as the case may be), present and voting in person or by proxy, will be counted.

The Ordinary Share EGM will be held as soon as after the Ordinary Share Court Meeting has been concluded or adjourned for the purpose of considering and, if thought fit, passing resolutions to approve, among other things, the reduction of the number of issued Ordinary Shares in the share capital of the Company by cancelling and extinguishing all Scheme Ordinary Shares. All Ordinary Shareholders will be entitled to attend and vote in person or by proxy on such resolutions at the Ordinary Share EGM.

The CPS EGM will be held as soon as after the CPS Court Meeting has been concluded or adjourned for the purpose of considering and, if thought fit, passing resolutions to approve, among other things, the reduction of the number of issued CPS in the share capital of the Company by cancelling and extinguishing all Scheme CPS. All CPS Holders will be entitled to attend and vote in person or by proxy on such resolutions at the CPS EGM.

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

At the relevant EGM, the special and ordinary resolutions will be put to the vote by way of poll as required under Rule 13.39(4) of the Listing Rules.

Announcement(s) will be made by the Company and the Offeror in relation to the results of the Court Meetings and EGMs in accordance with Rule 19.1 of the Takeovers Code to the extent applicable. Information on the number of votes cast for and the number of votes cast against the relevant Ordinary Share Scheme or the CPS Scheme and the number of CCASS Participants on whose instructions they are cast will be included in such announcement(s).

Notices of the Ordinary Share Court Meeting and the Ordinary Share EGM are set out in Appendix IV and Appendix V of this Scheme Document. Notices of the CPS Court Meeting and the CPS EGM are set out in Appendix VII and Appendix VIII of this Scheme Document.

## **17. ACTIONS TO BE TAKEN BY THE ORDINARY SHAREHOLDERS AND THE CPS HOLDERS**

Your attention is drawn to the section headed “Actions to be taken — Actions to be taken by the Ordinary Shareholders and the CPS Holders” set out in Part II of this Scheme Document.

## **18. RECOMMENDATIONS**

Able Capital has been appointed by the Board (with approval of the Independent Board Committee) as the Independent Financial Adviser to advise the Independent Board Committee in connection with the Proposal. The text of the letter of advice from the Independent Financial Adviser containing its recommendation and the principal factors and reasons that it has taken into consideration in arriving at its recommendation is set out in Part VI of this Scheme Document. We would advise you to read this letter and the letter of advice from the Independent Financial Adviser carefully before you take any action in respect of the Proposal.

The Independent Board Committee has considered the terms of the Proposal and taken into account the advice of the Independent Financial Adviser, in particular the factors, reasons and recommendation as set out in the letter from the Independent Financial Adviser in Part VI of this Scheme Document. The Independent Board Committee's recommendation is set out in Part V of this Scheme Document.

The executive Directors of the Company, except Mr. Li Wen Hai, who have or may have a material interest in the Proposal and have not participated in any vote, will continue to abstain from voting at meetings of the Board in relation to the Proposal, the Ordinary Share Scheme and the CPS Scheme. Mr. Li Wen Hai, being the only executive Director of the Company who is not required to abstain from voting, believes that the terms of the Proposal, the Ordinary Share Scheme and the CPS Scheme are fair and reasonable and in the interests of the Scheme Ordinary Shareholders and the Scheme CPS Holders respectively.

## **19. REGISTRATION AND PAYMENT**

Assuming that the Scheme Record Date falls on Monday, 14 October 2019, it is proposed that the register of members of the Company will be closed from Monday, 14 October 2019 (or such other date as the Shareholders may be notified by way of an announcement) onwards in order to establish entitlements under the Ordinary Share Scheme and/or the CPS Scheme. In order to qualify for entitlements under the Ordinary Share Scheme and/or the CPS Scheme, Shareholders should ensure that the transfers of their Shares are lodged with the Hong Kong branch share registrar and transfer office of the Company for registration in their names or in the names of their nominees before 4:30 p.m. on Friday, 11 October 2019. The Hong Kong branch share registrar and transfer office of the Company is Tricor Progressive Limited, which is located at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.

### **Payment of the Ordinary Share Cancellation Price and CPS Cancellation Price to Scheme Ordinary Shareholders and Scheme CPS Holders**

Upon the Ordinary Share Scheme and/or CPS Scheme becoming effective, payment of the Ordinary Share Cancellation Price and/or the CPS Cancellation Price for the Scheme Ordinary Shares and/or Scheme CPS will be made to the Scheme Ordinary Shareholders and/or Scheme CPS Holders whose names appear on the register of members of the Company as at the Scheme Record Date. On the basis that the Ordinary Share Scheme and/or CPS Scheme becomes effective on or about Thursday, 24 October 2019 (Cayman Islands time), cheques for payment of the Ordinary Share Cancellation Price and/or the CPS Cancellation Price will be paid for by the Offeror as soon as possible but in any event within 7 Business Days following the Ordinary Share Scheme and/or the CPS Scheme having become effective and accordingly, the cheques are expected to be despatched on or before Monday, 4 November 2019. Cheques will be sent by ordinary post 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 Offeror, the Company and Somerley Capital will be responsible for any loss or delay in despatch.

On or after the day being six calendar months after the posting of such cheques, the Offeror shall have the right to cause the cancellation of any cheque which has not been cashed or has been returned uncashed and place all monies represented by the cheque in a deposit or custodian account in the Offeror's name with a licensed bank in Hong Kong selected by the Offeror.

Before the expiry of six years from the effective date of the Ordinary Share Scheme and/or the CPS Scheme, the Offeror shall make payments from the deposit or custodian account of the sums, together with interest thereon, to persons who satisfy the Offeror that they are respectively entitled thereto. On the expiry of six years from the effective date of the Ordinary Share Scheme and/or the CPS Scheme, the Offeror and the Company shall be released from any further obligation to make any payments under the Ordinary Share Scheme and/or the CPS Scheme and the 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.

Assuming that the Ordinary Share Scheme and/or the CPS Scheme becomes effective, all existing certificates representing the Scheme Ordinary Shares and/or Scheme CPS will cease to have effect as documents or evidence of title as from the effective date of the Ordinary Share Scheme and/or the CPS Scheme, which is expected to be on or about Thursday, 24 October 2019 (Cayman Islands time).

Settlement of the Ordinary Share Cancellation Price and/or the CPS Cancellation Price to which the Scheme Ordinary Shareholders and/or the Scheme CPS Holders are entitled under the Ordinary Share Scheme or the CPS Scheme (as the case may be) will be implemented in full in accordance with the terms of the Ordinary Share Scheme or the CPS Scheme (as the case may be), without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against such Scheme Ordinary Shareholder or Scheme CPS Holder (as the case may be).

## **20. TAXATION**

As each of the Ordinary Share Scheme and/or the CPS Scheme does not involve the sale and purchase of Hong Kong stock, no 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 Ordinary Shares or Scheme CPS upon the Ordinary Share Scheme and/or the CPS Scheme becoming effective. The Scheme Ordinary Shareholders and the Scheme CPS Holders, whether in Hong Kong or in other jurisdictions, are recommended to consult their own professional advisers if they are in doubt as to the taxation implications of accepting the Proposal. It is emphasized that none of the Offeror, the Company, parties acting in concert with them or presumed to be acting in concert with them and their respective advisers or any of their respective directors, officers or associates or any other person involved in the Proposal accepts any responsibility whatsoever for any taxation effects on, or liabilities of, any persons as a result of their acceptance or rejection of the Proposal.

**21. THE ORDINARY SHARE SCHEME, THE CPS SCHEME AND THE COURT MEETINGS**

Pursuant to Section 86 of the Cayman Islands Companies Law, where an arrangement is proposed between a company and its members or any class of them, the Cayman Islands 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 Cayman Islands Grand Court directs.

It is expressly provided in Section 86 of the Cayman Islands 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 Cayman Islands Grand Court as aforesaid, agree to any arrangement, the arrangement shall, if sanctioned by the Cayman Islands Grand Court, be binding on all members or class of members, as the case may be, and also on the company.

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

Rule 2.10 of the Takeovers Code provides that in addition to satisfying any voting requirements imposed by law as summarized above, other than with the consent of the Executive, a scheme of arrangement used to privatize a company may only be implemented if:

- (a) the scheme is approved by at least 75% of the votes attaching to the disinterested shares (i.e. shares in the company other than those which are owned by the offeror or persons acting in concert with the offeror) that are cast either in person or by proxy at the at a duly convened meeting of the holders of the disinterested shares; and
- (b) the number of votes cast against the resolution to approve the scheme at such meeting is not more than 10% of the votes attaching to all the disinterested shares.

As at the Latest Practicable Date, the Independent Ordinary Shareholders held in aggregate 2,764,831,785 Ordinary Shares and 10% of the votes attached to all Scheme Ordinary Shares held by the Independent Ordinary Shareholders was approximately 276,483,178 Ordinary Shares.

As at the Latest Practicable Date, the Independent CPS Holders held in aggregate 3,607,800 CPS and 10% of the votes attached to all Scheme CPS held by the Independent CPS Holders was 360,780 CPS.

**23. 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 Shareholders so that they can attend the relevant Court Meeting in the capacity as members of the Company or 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) to enable the Company to properly classify members of the Company as Scheme Ordinary Shareholders and Scheme CPS Holders for the purposes of Section 86 of the Companies Law; and
- (c) to enable the Company and the Offeror to make arrangements to effect payments by way of the delivery of cheques to the most appropriate person when the Ordinary Share Scheme and/or the CPS 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 him, her or it 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 relevant Court Meeting and/or the relevant EGM. Such instructions and/or arrangements should be given or made in advance of the relevant latest time for the lodgement of forms of proxy in respect of the relevant Court Meeting and the relevant EGM in order to provide the Registered Owner with sufficient time to accurately complete his, her or its proxy and to submit it by the deadline. 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 relevant latest time for the lodgement of forms of proxy in respect of the relevant Court Meeting and the relevant EGM, then any such Beneficial Owner should comply with the requirements of such 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 person(s) if they wish to vote in respect of the Ordinary Share Scheme and/or the CPS Scheme. Beneficial Owners should contact their broker, custodian, nominee or such other relevant person in advance of the deadline(s) in respect of the relevant Court Meeting and the relevant 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 Shares of the Beneficial Owner should be voted at the relevant Court Meeting and/or the relevant EGM. The procedures for voting in respect of the Ordinary Share Scheme and/or the CPS 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.

#### **24. BINDING EFFECT OF THE ORDINARY SHARE SCHEME AND THE CPS SCHEME**

Upon the Ordinary Share Scheme and/or the CPS Scheme becoming effective, it will be binding on the Company and all Scheme Ordinary Shareholders and/or Scheme CPS Holders (as the case may be), regardless of how they voted (or whether they voted) at the relevant Court Meeting and/or the relevant EGM.



**25. IRREVOCABLE UNDERTAKINGS TO ACCEPT THE PROPOSAL**

As at the Latest Practicable Date, none of the Offeror and persons acting in concert with it has received any irrevocable commitment from any Ordinary Shareholders or CPS Holders in respect of voting at any of the Court Meetings and/or the EGMs.

**26. SUMMARY OF ACTIONS TO BE TAKEN**

The summary of actions to be taken by the Ordinary Shareholders and the CPS Holders can be found in the section headed “Actions to be Taken” set out in Part II of this Scheme Document.

**27. RECOMMENDATION**

Your attention is drawn to the following:

- (a) the paragraph headed “18. Recommendations” in the letter from the Board in Part IV of this Scheme Document;
- (b) the letter from the Independent Board Committee set out in Part V of this Scheme Document; and
- (c) the letter from Independent Financial Adviser set out in Part VI of this Scheme Document.

**28. 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 Statement.

The Independent Ordinary Shareholders, the Independent CPS Holders and Shareholders should rely only on the information contained in this Scheme Document. None of the Offeror, the Company, parties acting in concert with them or presumed to be acting in concert with them and their respective advisers or any of their respective directors, officers or associates or any other person involved in the Proposal has authorized anyone to provide you with information that is different from what is contained in this Scheme Document.

## 1. FINANCIAL SUMMARY

The following summary financial information for each of the six months period ended 30 June 2018 and 30 June 2019 and each of the three years ended 31 December 2016, 31 December 2017 and 31 December 2018 has been extracted from the results announcement and published financials statement of the Company for the six months period ended 30 June 2018 and 2019 and for the years ended 31 December 2016, 2017 and 2018.

*Consolidated statement of Profit or Loss*

	<b>For the six months ended 30 June 2019</b>	<b>For the six months ended 30 June 2018</b>	<b>For the year ended 31 December 2018</b>	<b>For the year ended 31 December 2017</b>	<b>For the year ended 31 December 2016</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Audited)</i>	<i>(Audited)</i>	<i>(Audited)</i>
		<i>(Note)</i>	<i>(Note)</i>	<i>(Note)</i>	<i>(Note)</i>
Revenue	5,265,497	5,256,860	10,122,022	9,655,191	10,085,679
Cost of sales	<u>(4,334,351)</u>	<u>(4,331,250)</u>	<u>(8,339,802)</u>	<u>(7,918,689)</u>	<u>(8,347,148)</u>
Gross profit	931,146	925,610	1,782,220	1,736,502	1,738,531
Other revenue	381,238	330,784	672,440	605,349	539,608
Other net gain/(loss)	2,573	(13,039)	(448,118)	(41,531)	(415,507)
Distribution and store operating costs	(904,808)	(892,239)	(1,850,939)	(1,707,119)	(1,892,055)
Administrative expenses	<u>(142,993)</u>	<u>(136,416)</u>	<u>(260,874)</u>	<u>(266,395)</u>	<u>(402,505)</u>
Profit/(loss) from operation	267,156	214,700	(105,271)	326,806	(431,928)
Finance costs	<u>(218,075)</u>	<u>(54,778)</u>	<u>(117,228)</u>	<u>(101,554)</u>	<u>(82,783)</u>
Profit/(loss) before taxation	49,081	159,922	(222,499)	225,252	(514,711)
Income tax	<u>(9,016)</u>	<u>(22,232)</u>	<u>(65,860)</u>	<u>(46,212)</u>	<u>(22,889)</u>
Profit/(loss) for the period/year	<u><u>40,065</u></u>	<u><u>137,690</u></u>	<u><u>(288,359)</u></u>	<u><u>179,040</u></u>	<u><u>(537,600)</u></u>
Attributable to:					
Equity shareholders of the Company	40,065	137,690	(288,359)	179,040	(537,587)
Non-controlling interests	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(13)</u>
	<u><u>40,065</u></u>	<u><u>137,690</u></u>	<u><u>(288,359)</u></u>	<u><u>179,040</u></u>	<u><u>(537,600)</u></u>
Earning/(loss) per share					
Basic (RMB cents)	<u><u>0.18</u></u>	<u><u>0.62</u></u>	<u><u>(1.29)</u></u>	<u><u>0.80</u></u>	<u><u>(2.41)</u></u>
Diluted (RMB cents)	<u><u>0.18</u></u>	<u><u>0.62</u></u>	<u><u>(1.29)</u></u>	<u><u>0.80</u></u>	<u><u>(2.41)</u></u>

*Consolidated statement of Profit or Loss and Other Comprehensive Income*

	<b>For the six months ended 30 June 2019</b>	<b>For the six months ended 30 June 2018</b>	<b>For the year ended 31 December 2018</b>	<b>For the year ended 31 December 2017</b>	<b>For the year ended 31 December 2016</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Audited)</i>	<i>(Audited)</i>	<i>(Audited)</i>
		<i>(Note)</i>	<i>(Note)</i>	<i>(Note)</i>	<i>(Note)</i>
Profit/(loss) for the period/year	40,065	137,690	(288,359)	179,040	(537,600)
Other comprehensive income for the period/year (after tax and reclassification adjustments)					
Item that may be reclassified subsequently to profit or loss:					
Exchange differences on translation of financial statements of entities outside the PRC	252	701	5,958	(12,398)	12,118
Total comprehensive income for the period/year	<u>40,317</u>	<u>138,391</u>	<u>(282,401)</u>	<u>166,642</u>	<u>(525,482)</u>
Attributable to:					
Equity shareholders of the Company	40,317	138,391	(282,401)	166,642	(525,469)
Non-controlling interests	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(13)</u>
	<u>40,317</u>	<u>138,391</u>	<u>(282,401)</u>	<u>166,642</u>	<u>(525,482)</u>

*Note:* The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated.

For the six months period ended 30 June 2018 and 2019 and each of the three years ended 31 December 2016, 2017 and 2018, the Board resolved not to declare dividends.

The financial information for the six months period ended 30 June 2018 and 2019 are unaudited. The auditor's reports issued by KPMG in respect of the Group's audited consolidated financial statements for each of the three years ended 31 December 2016, 2017 and 2018 did not contain any modified opinion, emphasis of matter or material uncertainty related to going concern.

## 2. CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP

The Company is required to set out or refer to in this Scheme Document the statement of financial position, statement of cash flows and any other primary statement as shown in the last published audited accounts and preliminary announcement made since the last published audited accounts, together with the notes to the relevant published accounts or preliminary announcement which are of major relevance to the appreciation of the above financial information.

The audited consolidated financial statements of the Company for the year ended 31 December 2018 (the “**2018 Financial Statement**”) are set out on pages 70 to 161 of the annual report of the Company for the year ended 31 December 2018 (the “**2018 Annual Report**”), which was published on 11 April 2019. The 2018 Annual Report is posted on the website of the Stock Exchange and the Company, please also see below a direct link to the 2018 Annual Report:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0411/ltm201904111326.pdf>

The audited consolidated financial statements of the Company for the year ended 31 December 2017 (the “**2017 Financial Statement**”) are set out on pages 63 to 137 of the annual report of the Company for the year ended 31 December 2017 (the “**2017 Annual Report**”), which was published on 19 April 2018. The 2017 Annual Report is posted on the website of the Stock Exchange and the Company, please also see below a direct link to the 2017 Annual Report:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2018/0419/ltm20180419471.pdf>

The audited consolidated financial statements of the Company for the year ended 31 December 2016 (the “**2016 Financial Statement**”) are set out on pages 64 to 141 of the annual report of the Company for the year ended 31 December 2016 (the “**2016 Annual Report**”), which was published on 20 April 2017. The 2016 Annual Report is posted on the website of the Stock Exchange and the Company, please also see below a direct link to the 2016 Annual Report:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2017/0420/ltm20170420731.pdf>

The latest unaudited interim financial information of the Company for the six months period ended 30 June 2019 (the “**2019 Interim Financial Information**”) are set out on pages 2 to 22 of the results announcement of the Company for the six months period ended 30 June 2019 (the “**2019 Interim Results Announcement**”), which was published on 21 August 2019. The 2019 Interim Results Announcement is posted on the website of the Stock Exchange and the Company, please also see below a direct link to the 2019 Interim Results Announcement:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0821/ltm20190821315.pdf>

The unaudited interim financial information of the Company for the six months period ended 30 June 2018 (the “**2018 Interim Financial Information**”) are set out on pages 9 to 33 of the interim report of the Company for the six months period ended 30 June 2018 (the “**2018 Interim Report**”), which was published on 21 September 2018. The 2018 Interim Report is posted on the website of the

Stock Exchange and the Company, please also see below a direct link to the 2018 Interim Report:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2018/0921/lt20180921379.pdf>

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

### 3. INDEBTEDNESS STATEMENT

The interest-bearing bank and other borrowings primarily consist of short-term working capital loans and long-term loans. The interest-bearing bank and other borrowings as at 30 June 2019, being the latest practicable date for the purpose of this statement of indebtedness prior to the publication of this Scheme Document were as follows:

	<b>As at 30 June 2019</b>			
	<b>Loans from controlling shareholder</b>		<b>Loans from third parties</b>	<b>Total</b>
	<i>Bank loans RMB'000 (note 1)</i>	<i>RMB'000 (note 2)</i>	<i>RMB'000 (note 3)</i>	<i>RMB'000</i>
Within one year - unsecured	406,098	—	—	406,098
Over 1 year but less than 2 years	—	950,071	45,674	995,745
<b>Total Indebtedness</b>	<u>406,098</u>	<u>950,071</u>	<u>45,674</u>	<u>1,401,843</u>

*Note:*

- (1) As at 30 June 2019, all the bank loans provided to the Group were unsecured, repayable within one year and bore interest at one-year rate of People's Bank of China ("PBOC Rate") multiplied by 1.10-1.23, i.e. ranging from 4.785%-5.34% per annum.
- (2) As at 30 June 2019, the Group had floating rate loans amounting to approximately US\$139,770,000 (equivalent to RMB960,120,000) from the controlling shareholder, C.P. Holding (BVI), bearing interest at three-month LIBOR plus 4.40% to 5.65% per annum, which was 6.71% per annum as at 30 June 2019. The amount of loans from controlling shareholder was presented after being offset by an unamortised loan arrangement fee amounting to approximately RMB10,049,000. The loans from the controlling shareholder were unsecured and repayable in December 2020.
- (3) At 30 June 2019, the Group had third-party loans in the amount of approximately US\$6,656,000 (equivalent to approximately RMB45,674,000), which were unsecured, repayable in December 2020 and bore interest at three-month LIBOR plus 1.50% per annum.

As at 30 June 2019, the Group had unused loan facilities from C.P. Holding (BVI) amounting to US\$48,000,000 (equivalent to RMB329,346,000) and unused banking facilities of RMB223,338,000 granted from certain banks. All of these facilities were unsecured.

As at 30 June 2019, the Group had lease liabilities in the amount of approximately RMB4,355,011,000 for leases of hypermarket stores in PRC.

As at 30 June 2019, the Group had payables to third parties in the amount of RMB86,200,000, which were unsecured, repayable in December 2021 and bore fixed interest at 4.3% per annum.

Except as disclosed above and apart from intra-group liabilities and normal trade, bills and other payables in the ordinary course of business of the Group, as of the latest practicable date for determining the indebtedness, the Group did not have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities.

#### 4. CHANGE OF ACCOUNTING POLICIES

HKFRS 16, *Lease* (“HKFRS 16”), came into effect for the accounting periods beginning on or after 1 January 2019, following which lessees no longer distinguish finance leases and operating leases. Instead all leases would be accounted for with a similar approach to finance lease accounting.

In implementing HKFRS16, the Group is required to recognise new lease assets and liabilities on the statement of financial position for the leases previously classified as operating leases, and recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. This results in a front-loaded pattern of expenses for most leases, even when the Group pays constant annual rentals.

Furthermore, operating lease payments are no longer included under operating cash flow, except for short-term lease payments, payments for leases of low-value assets and variable lease payments not included in the measurement of the lease liabilities. The Group is required to split the rentals paid on the capitalised leases into capital element and interest element which are now classified as financing cash outflows, similar to how leases previously classified as finance leases under HKAS 17 were treated. Although actual cash flows are unaffected, the adoption of HKFRS 16 results in a change in classification of these cash flows.

The Group had elected for the modified retrospective approach for the adoption of HKFRS 16, which is an approach consistent with disclosure in the 2018 Annual Report of the Company.

The following table reconciles the operating lease commitments as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019.

	<b>1 January 2019</b> <i>RMB'000</i>
Operating lease commitments at 31 December 2018 (before considering reasonably certain not exercise early termination option):	1,978,420
Add: lease payments for the additional periods where the Group considers it reasonably certain that it will not exercise the early termination options	<u>5,972,161</u>
Operating lease commitments at 31 December 2018 (after considering reasonably certain not exercise early termination option):	7,950,581
Less: Lease agreements entered into but not yet commenced	<u>(805,470)</u>
	7,145,111
Less: Total future interest expenses	<u>(2,831,829)</u>
Present value of remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019	4,313,282
Add: Finance lease liabilities recognised as at 31 December 2018	<u>129,530</u>
Total lease liabilities recognised at 1 January 2019	<u><u>4,442,812</u></u>

The following table summarises the impacts of the adoption of HKFRS 16 on the Group's consolidated statement of financial position:

	Carrying amount at 31 December 2018 RMB'000	Adjustments RMB'000	Carrying amount at 1 January 2019 RMB'000
<b>Line items in the consolidated statement of financial position impacted by the adoption of HKFRS 16:</b>			
Investment properties	—	1,673,554	1,673,554
Other property, plant and equipment	1,738,851	2,827,446	4,566,297
Interests in leasehold land held for own use under operating leases	116,476	(116,476)	—
Intangible assets	111,934	(111,934)	—
Trade and other receivables (non-current)	6,804	51,322	58,126
<b>Total non-current assets</b>	<b>4,262,636</b>	<b>4,323,912</b>	<b>8,586,548</b>
Trade and other receivables (current)	1,009,760	(111,794)	897,966
<b>Current assets</b>	<b>2,848,099</b>	<b>(111,794)</b>	<b>2,736,305</b>
Trade and other payables	3,856,125	(34,067)	3,822,058
Lease liabilities (current)	14,243	225,091	239,334
<b>Current liabilities</b>	<b>4,571,318</b>	<b>191,024</b>	<b>4,762,342</b>
<b>Net current liabilities</b>	<b>(1,723,219)</b>	<b>(302,818)</b>	<b>(2,026,037)</b>
<b>Total assets less current liabilities</b>	<b>2,539,417</b>	<b>4,021,094</b>	<b>6,560,511</b>
Lease liabilities (non-current)	115,287	4,088,191	4,203,478
<b>Total non-current liabilities</b>	<b>1,132,248</b>	<b>4,088,191</b>	<b>5,220,439</b>
<b>Net assets</b>	<b><u>1,407,169</u></b>	<b><u>(67,097)</u></b>	<b><u>1,340,072</u></b>



As at 1 January 2019, right-of-use assets of certain under-performing stores were stated net of impairment losses of RMB67,097,000 to write down the carrying amount of these assets to their recoverable amount of approximately RMB61,835,000.

The analysis of the net book value of the Group's right-of-use assets by class of underlying asset at 30 June 2019 and at the date of transition to HKFRS 16 (i.e. 1 January 2019) is as follows:

	<b>At</b>	<b>At</b>
	<b>30 June</b>	<b>1 January</b>
	<b>2019</b>	<b>2019</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Included in "Other property, plant and equipment":		
Ownership interests in leasehold land		
held for own use	95,824	99,215
Other properties leased for own use	<u>2,681,391</u>	<u>2,798,040</u>
	2,777,215	2,897,255
Ownership interests in leasehold investment properties	<u>1,603,468</u>	<u>1,673,554</u>
	<u><u>4,380,683</u></u>	<u><u>4,570,809</u></u>

**Lease liabilities**

The remaining contractual maturities of the Group's lease liabilities at 30 June 2019 and at the date of transition to HKFRS 16 (i.e. 1 January 2019) are as follows:

	<b>At 30 June 2019</b>		<b>At 1 January 2019</b>	
	<b>Present value of the minimum lease payments <i>RMB'000</i></b>	<b>Total minimum lease payments <i>RMB'000</i></b>	<b>Present value of the minimum lease payments <i>RMB'000</i></b>	<b>Total minimum lease payments <i>RMB'000</i></b>
Within 1 year	<u>250,312</u>	<u>567,084</u>	<u>239,334</u>	<u>563,205</u>
After 1 year but within 2 years	284,453	581,274	262,718	567,798
After 2 years but within 5 years	977,598	1,725,056	963,457	1,742,235
After 5 years	<u>2,842,648</u>	<u>4,214,438</u>	<u>2,977,303</u>	<u>4,448,484</u>
	<u>4,104,699</u>	<u>6,520,768</u>	<u>4,203,478</u>	<u>6,758,517</u>
	<u>4,355,011</u>	7,087,852	<u>4,442,812</u>	7,321,722
Less: Total future interest expenses		<u>(2,732,841)</u>		<u>(2,878,910)</u>
Present value of lease liabilities		<u>4,355,011</u>		<u>4,442,812</u>

The following tables may give an indication of the estimated impact of adoption of HKFRS 16 on the Group's financial result and cash flows for the six months ended 30 June 2019, by adjusting the amounts reported under HKFRS 16 in these interim financial statements to compute estimates of the hypothetical amounts that would have been recognised under HKAS 17 if this superseded standard had continued to apply to 2019 instead of HKFRS 16, and by comparing these hypothetical amounts for 2019 with the actual 2018 corresponding amounts which were prepared under HKAS 17.

	Six months ended 30 June				2018
	2019				
	Amounts reported under HKFRS 16 (A) <i>RMB'000</i>	Add back: HKFRS 16 depreciation, interest expense and income tax (B) <i>RMB'000</i>	Deduct: Estimated amounts related to operating lease as if under HKAS 17 (C) <i>RMB'000</i>	Hypothetical amounts for 2019 as if under HKAS 17 (D=A+B-C) <i>RMB'000</i>	Compared to amounts reported for 2018 under HKAS 17 <i>RMB'000</i>
<b>Financial result for the six months ended 30 June 2019 impact by the adoption of HKFRS 16:</b>					
<b>Profit from operations</b>	267,156	203,440	(270,085)	200,511	214,700
Finance costs	(218,075)	158,152	—	(59,923)	(54,778)
<b>Profit before taxation</b>	49,081	361,592	(270,085)	140,588	159,922
<b>Profit for the period</b>	40,065	312,910	(233,556)	119,419	137,690

	Six months ended 30 June			2018
	2019			
	Amounts reported under HKFRS 16 (A) <i>RMB'000</i>	Estimated amounts related to operating lease as if under HKAS 17 (B) <i>RMB'000</i>	Hypothetical amount for 2019 as if under HKAS 17 (C=A+B) <i>RMB'000</i>	Compared to amount reported for 2018 under HKAS 17 <i>RMB'000</i>
<b>Line items in the condensed consolidated cash flow statement for the six months ended 30 June 2019 impacted by the adoption of HKFRS 16:</b>				
Cash generated from operations	236,770	(270,084)	(33,314)	226,850
<b>Net cash generated from operating activities</b>	197,735	(270,084)	(72,349)	189,064
Capital element of lease rentals paid	(118,879)	111,932	(6,947)	(6,296)
Interest element of lease rentals paid	(164,421)	158,152	(6,269)	(6,906)
<b>Net cash used in financing activities</b>	(239,056)	270,084	31,028	(95,850)

*Note 1:* The “estimated amounts related to operating leases” is an estimate of the amounts of the cash flows in 2019 that relate to lease which would have been classified as operating leases, if HKAS 17 had still applied in 2019. This estimate assumes that there were no difference between rentals and cash flows and that all of the new leases entered into in 2019 would have been classified as operating leases under HKAS 17, if HKAS 17 had still applied in 2019.

*Note 2:* In the table above, cash outflows are reclassified from financing to operating in order to compute hypothetical amounts of net cash generated from operating activities and net cash used in financing activities as if HKAS 17 still applied.

## 5. MATERIAL CHANGE

The Directors confirm that, save for the Proposal and the following matters, there has been 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:

- (a) HKFRS 16 has come into effect for the accounting periods beginning on or after 1 January 2019, following which lessees are no longer required to distinguish finance leases and operating leases. Instead, all leases would be accounted for with a similar approach to finance lease accounting;
- (b) as disclosed in the 2019 Interim Results Announcement, the Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information for the year of 2018 has not been restated and continues to be reported under HKAS 17. As a result, the Group recorded a net profit attributable to equity shareholders of the Company for the six months ended 30 June 2019 of approximately RMB40.1 million (six months ended 30 June 2018: approximately RMB137.7 million). The decrease was mainly due to the impact from the adoption of HKFRS 16, which reduced the total profit by approximately RMB79.4 million; and
- (c) as further disclosed in the 2019 Interim Results Announcement, the Group has recognised right-of-use assets of approximately RMB4,501.0 million and lease liabilities of approximately RMB4,313.3 million from the date of transition to HKFRS 16 as an adjustment to the opening balance at 1 January 2019, details of which are set out in note 2(c) to the 2019 Interim Financial Information and the paragraph headed “4. Change of Accounting Policies” in this Appendix.

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## APPENDIX II GENERAL INFORMATION OF THE GROUP AND THE OFFEROR

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### 1. RESPONSIBILITY STATEMENTS

This Scheme Document includes particulars given in compliance with the Takeovers Code for the purpose of giving information with regard to the Proposal, the Offeror and the Group.

The directors of the Offeror jointly and severally accept full responsibility for the accuracy of the information contained in this Scheme Document (other than information relating to 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 Directors) have been arrived at after due and careful consideration and there are no other facts not contained in this Scheme Document, the omission of which would make any statement in this Scheme Document misleading.

The directors of Charoen Pokphand Group jointly and severally accept full responsibility for the accuracy of the information contained in this Scheme Document (other than information relating to 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 Directors) have been arrived at after due and careful consideration and there are no other facts not contained in this Scheme Document, the omission of which would make any statement contained in this Scheme Document misleading.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this Scheme Document (other than information relating to the Offeror and parties acting in concert with it) 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 directors of the Offeror) have been arrived at after due and careful consideration and there are no other facts not contained in this Scheme Document, the omission of which would make any statement contained in this Scheme Document misleading.

### 2. SHARE CAPITAL

As at the Latest Practicable Date:

- (a) the authorised share capital of the Company was HK\$940,000,000 divided into 34,000,000,000 Ordinary Shares at a par value of HK\$0.02 each, 2,000,000,000 Series A Convertible Preference Shares, 4,000,000,000 Series B Convertible Preference Shares, 4,500,000,000 CPS and 2,500,000,000 Series D Convertible Preference Shares, each with a par value of HK\$0.02;
- (b) the issued share capital for Ordinary Shares of the Company was HK\$220,381,447.80 divided into 11,019,072,390 Ordinary Shares at a par value of HK\$0.02 each;
- (c) the Company has issued a total of 11,298,809,782 Convertible Preference Shares (comprising 1,518,807,075 Series A Convertible Preference Shares, 3,897,110,334 Series B Convertible Preference Shares, 3,671,509,764 CPS and 2,211,382,609 Series D Convertible Preference Shares) of a par value of HK\$0.02 each;

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## APPENDIX II GENERAL INFORMATION OF THE GROUP AND THE OFFEROR

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- (d) the Company had not issued any Ordinary Shares or Convertible Preference Shares since 21 May 2015;
- (e) all of the issued Ordinary Shares ranked pari passu in all respects with each other, including all rights as to dividends, voting and capital; and
- (f) other than the Ordinary Shares and the Convertible Preference Shares as disclosed above, there were no other outstanding options, warrants, derivatives or other convertible securities which may confer any rights to the holder(s) thereof to subscribe for, convert or exchange into Ordinary Shares.

### 3. DISCLOSURE OF INTERESTS

#### (a) Directors' interests and short positions in the Shares, underlying Shares and debentures of the Company or any associated corporations of the Company

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the Shares and underlying Shares of the Company or its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which the Directors and chief executive of the Company were deemed or taken to have under such provisions of the SFO), or as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers under the Listing Rules (the “**Model Code**”) were as follows:

#### (i) Long positions in Ordinary Shares of the Company

Name of directors	Number of Ordinary Shares held	Approximate percentage of shareholding (rounded)
Mr. Soopakij Chearavanont	183,240,198	1.66%
Mr. Narong Chearavanont	183,240,198	1.66%
Mr. Yang Xiaoping	183,240,198	1.66%
Mr. Meth Jiaravanont	61,080,066	0.56%
Mr. Suphachai Chearavanont	122,160,132	1.09%
Mr. Umroong Sanphasitvong	61,080,066	0.56%

#### (ii) Long positions in shares of associated corporations

Name of Directors	Name of associated corporations	Number of shares held	Approximate percentage of shareholding
Mr. Li Wen Hai	Kinghill Limited	171,428	0.05%
Mr. Yang Xiaoping	Kinghill Limited	171,428	0.05%

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## APPENDIX II GENERAL INFORMATION OF THE GROUP AND THE OFFEROR

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Save as disclosed above, as at the Latest Practicable Date, none of the Directors or their associate(s) had an interest or short position in the Shares, underlying Shares or debentures of the Company or any of its associated corporation which had been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of SFO (including interests and short positions of the SFO), or as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

As at the Latest Practicable Date, the executive Directors of the Company, except Mr. Li Wen Hai, who have or may have a material interest in the Proposal and have not participated in any vote, will continue to abstain from voting at meetings of the Board in relation to the Proposal, the Ordinary Share Scheme and the CPS Scheme. They, in respect of their beneficial shareholdings in the Company, intend to accept the Proposal.

### (b) Interests and short positions of the Offeror and other substantial Shareholders in Shares and underlying Shares

As at the Latest Practicable Date, Shareholders (other than the interest disclosed above in respect of the Directors or the chief executives of the Company) who had interests and short positions in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company and the Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

#### Long positions in the interests of the Company:

Name of shareholders	Note	Number of shares held	Approximate percentage of shareholding
The Offeror	(1)	18,083,521,003	164.11%
Worth Access Trading Limited (“Worth Access”)	(1)	18,083,521,003	164.11%
CPG Overseas Company Limited (“CPG Overseas”)	(1)	18,083,521,003	164.11%
Charoen Pokphand Group	(1)	18,450,001,399	167.44%

#### Note:

- (1) As at the Latest Practicable Date, Worth Access had an indirect interest of 18,083,521,003 shares in the Company through its shareholding of the entire shareholding interest in the Offeror. Worth Access is in turn wholly-owned by CPG Overseas, which is wholly-owned by Charoen Pokphand Group. Out of the 18,083,521,003 shares held by the Offeror, the Offeror holds an interest in a total of 11,295,201,982 Convertible Preference Shares (i.e. 1,518,807,075 Series A Convertible Preference Shares, 3,897,110,334 Series B Convertible Preference Shares, 3,667,901,964 CPS and 2,211,382,609 Series D Convertible Preference Shares).

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## APPENDIX II GENERAL INFORMATION OF THE GROUP AND THE OFFEROR

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Save as disclosed above, as at the Latest Practicable Date, there was no person (other than the interest disclosed above in respect of the Directors or the chief executive of the Company) who (i) had an interest or short position in the Shares and underlying Shares of the Company which (a) would fall to be disclosed to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO; or (b) were required, pursuant to Section 336 of the SFO, to be entered in the register referred therein; or (ii) were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying the right to vote in all circumstances at general meetings of the Company or any options in respect of such capital.

Save as disclosed above, as at the Latest Practicable Date, none of the Offeror, its directors and parties acting in concert with the Offeror, owned or controlled any Ordinary Shares or any options, warrants, derivatives or securities convertible into Ordinary Shares.

As at the Latest Practicable Date and during the Relevant Period, no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Offeror or with any party acting in concert with the Offeror.

As at the Latest Practicable Date, no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with any other associate of the Offeror under the Takeovers Code.

As at the Latest Practicable Date, 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 an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of “associate” under the Takeovers Code.

As at the Latest Practicable Date, there is no agreement, arrangement for or understanding for any transfer, charge or pledge of the Shares acquired pursuant to the Ordinary Share Scheme and/or the CPS Scheme to any other person.

As at the Latest Practicable Date and during the Relevant Period, the Offeror and any party acting in concert with it had not borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company.



**(c) Dealings in the relevant securities of the Company**

- (1) During the Relevant Period, none of the Offeror or the parties acting in concert with it had dealt for value in any Shares, convertible securities, warrants, options and derivatives in respect of the Shares.

During the Relevant Period, none of the director of the Offeror had dealt for value in any Shares, convertible securities, warrants, options and derivatives in respect of the Shares.

- (2) During the Relevant Period, none of the Directors had any dealings in any Shares, warrants, options, derivatives and securities carrying conversion or subscription rights into Shares.
- (3) During the Offer Period and up to the Latest Practicable Date:
- (i) no subsidiaries of the Company, pension funds of any member of the Group or any advisers to the Company as specified in class (2) of the definition of “associate” under the Takeovers Code (but excluding exempt principal traders) had any dealings in any Shares, warrants, options, derivatives and securities carrying conversion or subscription rights into Shares;
  - (ii) no person who had an 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 an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of “associate” under the Takeovers Code had any dealings in any Shares, warrants, options, derivatives and securities carrying conversion or subscription rights into Shares; and
  - (iii) no fund managers connected with the Company had any dealings in any Shares, warrants, options, derivatives and securities carrying conversion or subscription rights into Shares.

**(d) Interest in the Offeror**

As at the Latest Practicable Date, none of the Company or any of the Directors had any interest in the shares, warrants, options, derivatives and securities carrying conversion or subscription rights into shares of the Offeror.

**(e) Dealings in the securities of the Offeror**

During the Relevant Period, none of the Company nor the Directors had any dealings in the shares, warrants, options, derivatives and securities carrying conversion or subscription rights into shares of the Offeror.

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## APPENDIX II GENERAL INFORMATION OF THE GROUP AND THE OFFEROR

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### (f) Other arrangements in relation to the Proposal

As at the Latest Practicable Date:

- (i) no benefit was or would be given to any Director as compensation for his loss of office or otherwise in connection with the Proposal;
- (ii) there was no agreement, arrangement or understanding (including any compensation arrangement) between the Offeror or any parties acting in concert with it on one hand and any Directors, recent Directors, Shareholders or recent Shareholders on the other hand, having any connection with or was dependent upon the Proposal;
- (iii) there was no agreement or arrangement to which the Offeror is a party which relate to circumstances in which it may or may not invoke or seek to invoke an Ordinary Share Scheme Condition and/or a CPS Scheme Condition;
- (iv) there was no arrangement (whether by way of option, indemnity or otherwise) in relation to shares of the Offeror or the Shares which might be material to the Proposal.

### (g) Other interests

As at the Latest Practicable Date:

- (i) no Shares or any convertible securities, warrants, options or derivatives issued by the Company was owned or controlled by a subsidiary of the Company or by a pension fund (if any) of any member of the Group or by a person who is presumed to be acting in concert with the Company by virtue of class (5) of the definition of acting in concert or by an associate of the Company by virtue of class (2) of the definition of “associate” under the Takeovers Code;
- (ii) there was no 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) and (5) of the definition of acting in concert or with any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of “associate” under the Takeovers Code;
- (iii) no Shares, convertible securities, warrants, options or derivatives of the Company was managed on a discretionary basis by any fund managers connected with the Company;

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## APPENDIX II GENERAL INFORMATION OF THE GROUP AND THE OFFEROR

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- (iv) no agreement, arrangement or understanding (including any compensation arrangement) exists between the Offeror or any person acting in concert with it and any of the Directors and any other person which is conditional on or dependent upon the outcome of the Proposal or otherwise connected with the Proposal;
- (v) no material contracts have been entered into by the Offeror in which any Director has a material personal interest; and
- (vi) none of the Company and the Directors had borrowed or lent any relevant securities (as defined under Note 4 to Rule 22 of the Takeovers Code) of the Company.

### 4. MATERIAL LITIGATION

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

### 5. MATERIAL CONTRACT

Save as disclosed below, no 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) had been entered into by the Company or any of its subsidiaries within the two years before the commencement of the Offer Period, up to and including the Latest Practicable Date and were or might be material:

- (a) the joint venture agreement dated 5 June 2019 entered into between Guangzhou Lotus Supermarket Chain Store Co., Ltd., a wholly-owned subsidiary of the Company, and Chia Tai C.P. Trading Development Co., Ltd. in relation to the formation of a joint venture in an aggregate capital contribution of RMB20 million.

### 6. SERVICE CONTRACTS

As at the Latest Practicable Date, 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 six (6) months preceding the Latest Practicable Date; or (b) is a continuous contract with a notice period of 12 months or more; or (c) is a fixed term contract that has more than 12 months to run irrespective of the notice period.

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## APPENDIX II GENERAL INFORMATION OF THE GROUP AND THE OFFEROR

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### 7. MARKET PRICES

The table below shows the closing prices per Share on the Stock Exchange on (i) the Latest Practicable Date; (ii) the Last Trading Day; and (iii) the last trading day of each of the calendar months during the Relevant Period.

<b>Date</b>	<b>Closing price (HK\$)</b>
31 December 2018	0.078
31 January 2019	0.081
28 February 2019	0.097
29 March 2019	0.088
30 April 2019	0.073
31 May 2019	0.088
18 June 2019 (Last Trading Day)	0.1
28 June 2019	0.103
31 July 2019	0.104
30 August 2019	0.105
6 September 2019 (Latest Practicable Date)	0.105

During the Relevant Period, the highest closing price of the Shares as quoted on the Stock Exchange was HK\$0.113 per Share on 19 February 2019 and the lowest closing price of the Shares as quoted on the Stock Exchange was HK\$0.071 per Share on 20 May 2019.

### 8. CONSENTS AND QUALIFICATIONS OF EXPERTS

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

<b>Name</b>	<b>Qualification</b>
Somerley Capital Limited	a licensed corporation under the SFO, licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities
Able Capital Partners Limited	a licensed corporation under the SFO, licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities

Somerley Capital and Able Capital have given and have not withdrawn their respective written consents to the issue of this Scheme Document with the inclusion of their letters and advices (as the case may be) and the references to their names in the form and context in which they respectively appear.

As at the Latest Practicable Date, Somerley Capital and Able Capital did not have any shareholdings in the Company.

**9. MISCELLANEOUS**

- (i) The directors of the Offeror are Mr. Dhanin Chearavanont, Mr. Sumet Jiaravanon, Mr. Min Tieworn, Mr. Thirayut Phitya-Isarakul and Mr. Veeravat Kanchanadul.
- (ii) The registered office of the Offeror is situated at Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands.
- (iii) The Offeror is wholly owned by Worth Access, a company incorporated in the British Virgin Islands, the entire issued share capital of which are owned by CPG Overseas, a company incorporated in Hong Kong. The entire issued share capital of CPG Overseas is owned by Charoen Pokphand Group, a company incorporated in the Kingdom of Thailand.
- (iv) The registered office of Worth Access is situated at Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands; and the director of Worth Access is Mr. Pang Siu Chik.
- (v) The registered office of CPG Overseas is situated at 21st Floor, Far East Finance Centre, 16 Harcourt Road, Hong Kong; and the directors of CPG Overseas are Mr. Dhanin Chearavanont, Mr. Soopakij Chearavanont, Mr. Narong Chearavanont, Mr. Prasert Jarupanich, Mrs. Surang Wongrungratkit, Mr. Umroong Sanphasitvong, Mr. Pang Siu Chik and Mr. Ho Ping-Hsien.
- (vi) The registered office of Charoen Pokphand Group is situated at 313 Silom Road, C.P. Tower, 14th, 16th Floors, Bangrak, Bangkok 10500, Thailand; and the directors of Charoen Pokphand Group are Mr. Jaran Chiaravanont, Mr. Sumet Jiaravanon, Mr. Montri Jiaravanont, Mr. Dhanin Chearavanont, Mr. Soopakij Chearavanont, Mr. Suphachai Chearavanont, Mr. Wanlop Chiaravanont, Mr. Prasert Poongkumarn, Mr. Min Tieworn, Mr. Phongthep Chiaravanont and Mr. Chingchai Lohawatanakul.
- (vii) The registered office of the Company is situated at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.
- (viii) The principal place of business of Somerley Capital is at 20th Floor, China Building, 29 Queen's Road Central, Hong Kong.
- (ix) The principal office of the Company in Hong Kong is situated at 21st Floor, Far East Finance Centre, 16 Harcourt Road, Hong Kong.

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## APPENDIX II GENERAL INFORMATION OF THE GROUP AND THE OFFEROR

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- (x) The company secretary of the Company is Mr. Liu Shek David (“**Mr. Liu**”), who is a qualified solicitor in Hong Kong and has over 6 years of working experience in corporate regulatory compliance and other areas of the law. Prior to the current role, Mr. Liu had worked in the corporate department of a major international law firm in Hong Kong and the legal department of the Charoen Pokphand Group in Hong Kong. Mr. Liu received a Bachelor of Science degree in Business Administration (Finance) from Carnegie Mellon University in the United States of America in 2008 and a Juris Doctor degree from the University of Hong Kong in 2011.
- (xi) The branch share registrar and transfer office of the Company in Hong Kong is Tricor Progressive Limited, situated at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong.
- (xii) This Scheme Document is prepared in both English and Chinese. In the event of inconsistency, the English text shall prevail.

### 10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the principal place of business of the Company in Hong Kong at 21st Floor, Far East Finance Centre, 16 Harcourt Road, Hong Kong from 9:30 a.m. to 5:00 p.m. (except Saturday, Sunday and public holidays) and on the website of the Company at [www.cplotuscorp.com](http://www.cplotuscorp.com) and the website of the SFC at [www.sfc.hk](http://www.sfc.hk) during the period from the date of this Scheme Document until (a) the Effective Date; and (b) the date on which the Ordinary Share Scheme and/or the CPS Scheme lapses or is withdrawn, whichever is earlier:

- (i) the memorandum and articles of association of the Offeror;
- (ii) the memorandum and articles of association of the Company;
- (iii) the annual reports of the Company for the years ended 31 December 2018, 31 December 2017 and 31 December 2016, respectively;
- (iv) the interim results announcement of the Company for the six months ended 30 June 2019;
- (v) the letter from the Board, the text of which is set out in Part IV of this Scheme Document;
- (vi) the letter from the Independent Board Committee, the text of which is set out in Part V of this Scheme Document;

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## APPENDIX II GENERAL INFORMATION OF THE GROUP AND THE OFFEROR

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- (vii) the letter from the Independent Financial Adviser, the text of which is set out in Part VI of this Scheme Document;
- (viii) the written consents issued by Somerley Capital and Able Capital referred to in the paragraph headed “8. Consents and qualifications of experts” in this Appendix;
- (ix) the material contract as set out in the section headed “5. Material contract” in this Appendix; and
- (x) this Scheme Document.

IN THE GRAND COURT OF THE CAYMAN ISLANDS  
FINANCIAL SERVICES DIVISION

Cause No. FSD 149 of 2019

IN THE MATTER OF SECTIONS 15 AND 86 OF THE COMPANIES LAW (2018 REVISION) (AS AMENDED)  
AND IN THE MATTER OF THE GRAND COURT RULES 1995 ORDER 102  
AND IN THE MATTER of C.P. LOTUS CORPORATION 卜蜂蓮花有限公司

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**ORDINARY SHARE SCHEME OF ARRANGEMENT**

**Between**

**C.P. Lotus Corporation**  
卜蜂蓮花有限公司

**and**

**THE SCHEME ORDINARY SHAREHOLDERS**  
**(as hereinafter defined)**

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

<b>“acting in concert”</b>	has the same meaning ascribed to it in the Takeovers Code
<b>“Board”</b>	the board of Directors
<b>“Business Day”</b>	a day other than a Saturday, Sunday or a public holiday in Hong Kong or the Cayman Islands
<b>“Company”</b>	C.P. Lotus Corporation 卜蜂蓮花有限公司, an exempted company incorporated in the Cayman Islands on 18 September 1990 with limited liability, the Ordinary Shares are currently listed on the Main Board of the Stock Exchange (stock code: 00121)
<b>“Companies Law”</b>	the Companies Law Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands



<b>“Composite Scheme Document”</b>	the composite scheme document of the Company and the Offeror issued to, among others, the Independent Ordinary Shareholders containing, inter alia, further details of the Proposal
<b>“CPS”</b>	the unlisted, non-voting (save and except for resolution for the winding-up of the Company or resolution if passed would vary or abrogate the rights and privileges of the holders thereof) series C convertible preference shares of HK\$0.02 par value each in the share capital of the Company, which are currently convertible into Ordinary Shares at a conversion ratio of 1 to 1 (subject to adjustment) and the conversion is subject to the minimum public float requirement under the Rules Governing the Listing of Securities on the Stock Exchange
<b>“CPS Scheme of Arrangement”</b>	a scheme of arrangement between the Company and certain holders of CPS under Section 86 of the Companies Law
<b>“Director”</b>	a director of the Company
<b>“Effective Date”</b>	the date on which the Ordinary Share Scheme of Arrangement, if approved 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 Ordinary Share Scheme of Arrangement and confirming the reduction of issued share capital resulting from the cancellation of the Scheme Ordinary 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)
<b>“Executive”</b>	the Executive Director of the Corporate Finance Division of the Securities and Futures Commission of Hong Kong or any delegate thereof
<b>“Grand Court”</b>	the Grand Court of the Cayman Islands
<b>“HK\$”</b>	Hong Kong dollar(s), the lawful currency of Hong Kong
<b>“Hong Kong”</b>	the Hong Kong Special Administrative Region of the People’s Republic of China
<b>“Independent Board Committee”</b>	the independent board committee of the Company established by the Board to make a recommendation to the Independent Ordinary Shareholders in respect of, among others, the Proposal and the Ordinary Share Scheme of Arrangement, comprising Viroj Sangsnit, Songkitti Jaggabatara, Itthaporn Subhawong, Prasobsook Boondech and Cheng Yuk Wo

<b>“Independent Financial Adviser”</b>	Able Capital Partners Limited, the independent financial adviser to the Independent Board Committee appointed pursuant to Rule 2.1 of the Takeovers Code in relation to, among others, the Proposal and the Ordinary Share Scheme of Arrangement, being a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
<b>“Independent Ordinary Shareholders”</b>	the Ordinary Shareholders other than the Offeror and the Offeror Concert Parties
<b>“Latest Practicable Date”</b>	6 September 2019, being the latest practicable date prior to the printing of the Composite Scheme Document for ascertaining certain information contained herein
<b>“Offeror”</b>	C.P. Holding (BVI) Investment Company Limited, a company incorporated in the British Virgin Islands with limited liability and which is an indirectly wholly-owned subsidiary of the Ultimate Parent
<b>“Offeror Concert Parties”</b>	parties acting in concert with or presumed to be acting in concert with the Offeror under the definition of “acting in concert” under the Takeovers Code, being the Principal Offeror Concert Party and the Other Offeror Concert Parties
<b>“Ordinary Share(s)”</b>	ordinary share(s) of HK\$0.02 par value each in the share capital of the Company
<b>“Ordinary Share Cancellation Price”</b>	the cancellation price of HK\$0.11 per Scheme Ordinary Share payable in cash by the Offeror to the Scheme Ordinary Shareholders pursuant to the Ordinary Share Scheme of Arrangement for every Scheme Ordinary Share cancelled and extinguished
<b>“Ordinary Share Court Meeting”</b>	a meeting of the Independent Ordinary Shareholders convened at the direction of the Grand Court at which the Ordinary Share Scheme of Arrangement will be voted upon
<b>“Ordinary Share Scheme Court Meeting Record Date”</b>	Friday, 4 October 2019 or such other date as may be announced to, among others, the Independent Ordinary Shareholders, being the record date for the purpose of determining the entitlement of the Independent Ordinary Shareholders to attend and vote at the Ordinary Share Court Meeting

<b>“Ordinary Share Scheme Conditions”</b>	the conditions to the implementation of the Ordinary Share Scheme of Arrangement as set out in the section headed “Ordinary Share Scheme Conditions” in the explanatory statement of the Composite Scheme Document
<b>“Ordinary Share Scheme of Arrangement”</b>	a scheme of arrangement between the Company and the Scheme Ordinary Shareholders under Section 86 of the Companies Law (subject to satisfaction (or waiver as applicable) of the Ordinary Share Scheme Conditions) involving the cancellation and reduction of all the Scheme Ordinary Shares and the restoration of the number of Ordinary Shares to the amount immediately before the cancellation and reduction of the Scheme Ordinary Shares
<b>“Ordinary Shareholder(s)”</b>	holder(s) of the Ordinary Share(s)
<b>“Other Offeror Concert Parties”</b>	Offeror Concert Parties holding Ordinary Shares in the Company, excluding the Principal Offeror Concert Party
<b>“Principal Offeror Concert Party”</b>	CPG Enterprise Limited, a company incorporated in the British Virgin Islands which is indirectly owned as to 99.99% by the Ultimate Parent, the ultimate controlling shareholder of the Company and which ultimately and indirectly owns the Offeror
<b>“Proposal”</b>	the proposal for the privatisation of the Company by the Offeror by way of the Ordinary Share Scheme of Arrangement and the CPS Scheme of Arrangement
<b>“Register”</b>	the principal or branch register of members of the Company (as the case may be) in respect of the Ordinary Shares
<b>“Scheme Ordinary Share(s)”</b>	Ordinary Share(s) other than those directly or indirectly held by the Offeror and the Principal Offeror Concert Party as at the Scheme Ordinary Share Record Time on the Scheme Ordinary Share Record Date
<b>“Scheme Ordinary Share Record Date”</b>	Monday, 14 October 2019 or such other date as shall have been announced to the Independent Ordinary Shareholders, being the record date for the purpose of determining the entitlement of the Independent Ordinary Shareholders to the Ordinary Share Cancellation Price upon the Ordinary Share Scheme of Arrangement becoming effective
<b>“Scheme Ordinary Share Record Time”</b>	4:00 p.m. (Hong Kong time) on the Scheme Ordinary Share Record Date

<b>“Scheme Ordinary Shareholder(s)”</b>	the holder(s) of Scheme Ordinary Shares as at the Scheme Ordinary Share Record Time on the Scheme Ordinary Share Record Date
<b>“SFO”</b>	the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
<b>“Stock Exchange”</b>	The Stock Exchange of Hong Kong Limited
<b>“Takeovers Code”</b>	the Code on Takeovers and Mergers of Hong Kong
<b>“Ultimate Parent”</b>	Charoen Pokphand Group Company Limited, a company organised and existing under the laws of the Kingdom of Thailand

- (B) The Company was incorporated as an exempted company on 18 September 1990 with limited liability in the Cayman Islands under the Companies Law.
- (C) The Company has an authorised share capital of HK\$940,000,000 divided into 34,000,000,000 Ordinary Shares, 2,000,000,000 series A convertible preference shares of par value of HK\$0.02 each, 4,000,000,000 series B convertible preference shares of par value of HK\$0.02 each, 4,500,000,000 CPS and 2,500,000,000 series D convertible preference shares of par value of HK\$0.02 each.
- (D) The Offeror, which is indirectly wholly owned by the Ultimate Parent, has proposed the privatisation of the Company by way of the Ordinary Share Scheme of Arrangement and the CPS Scheme of Arrangement.
- (E) The primary purpose of the Ordinary Share Scheme of Arrangement (together with the CPS Scheme of Arrangement) is to privatise the Company by cancelling and extinguishing, among others, all of the Scheme Ordinary Shares in consideration for the Ordinary Share Cancellation Price so that after the completion of the Ordinary Share Scheme of Arrangement (as well as the CPS Scheme of Arrangement), the Offeror and the Principal Offeror Concert Party will own 100% of the Company. Simultaneously with the cancellation of the Scheme Ordinary Shares, the issued share capital of the Company will be restored to its former amount by the issue to the Offeror credited as fully paid at par such number of Ordinary Shares as is equal to the number of Scheme Ordinary Shares cancelled and extinguished.

- (F) As at the Latest Practicable Date, 8,254,240,605 Ordinary Shares were legally and/or beneficially owned by the Offeror and the Offeror Concert Parties and registered as follows:

	As at the Latest Practicable Date		As at the Effective Date (assuming no CPS is converted into Ordinary Shares)	
	Number of Ordinary Shares	%	Number of Ordinary Shares	%
<b>Ordinary Shareholders</b>				
<b>Offeror</b>	6,788,319,021	61.61	10,652,591,994	96.67
<b>Principal Offeror Concert Party</b>	366,480,396	3.33	366,480,396	3.33
<b>Other Offeror Concert Parties</b>	1,099,441,188	9.97	—	—
<b>Subtotal</b> (aggregate number of Ordinary Shares not voting on the Ordinary Share Scheme of Arrangement)	8,254,240,605	74.91	11,019,072,390	100
<b>Scheme Ordinary Shareholders</b> who are independent (i.e., Independent Ordinary Shareholders)	2,764,831,785	25.09	—	—
<b>Total Ordinary Shares in issue</b>	11,019,072,390	100	11,019,072,390	100
<b>Total number of Scheme Ordinary Shares</b> (which represent all issued Ordinary Shares except for those held by the Offeror and the Principal Offeror Concert Party)	3,864,272,973	35.06	—	—

- (G) Each of the Offeror and the Offeror Concert Parties will procure that any Ordinary Shares in respect of which they are legally or beneficially interested will not be represented or voted at the Ordinary Share Court Meeting convened at the direction of the Grand Court for the purpose of considering and, if thought fit, approving the Ordinary Share Scheme of Arrangement. Only the Independent Ordinary Shareholders will attend and vote at the Ordinary Share Court Meeting.
- (H) Each of the Offeror Concert Parties has undertaken to the Grand Court to be bound by the terms of the Ordinary Share Scheme of Arrangement and to execute and do and procure to be executed and done all such documents, acts and things as may be necessary or desirable for the purpose of giving effect to and satisfying it/his obligations under the Ordinary Share Scheme of Arrangement.

**ORDINARY SHARE SCHEME OF ARRANGEMENT****PART I****Cancellation of the Scheme Ordinary Shares and issue of new Ordinary Shares  
credited as fully paid at par to the Offeror**

1. On the Effective Date:
  - (a) the issued share capital of the Company shall be reduced by cancelling and extinguishing the Scheme Ordinary Shares and the Scheme Ordinary Shareholders shall cease to have any right with respect to the Scheme Ordinary Shares except the right to receive the Ordinary Share Cancellation Price;
  - (b) subject to and forthwith upon such reduction of issued share capital taking effect, the issued share capital of the Company will be restored to its former amount by issuing to the Offeror the same number of Ordinary Shares as is equal to the number of Scheme Ordinary Shares cancelled and extinguished; and
  - (c) the Company shall apply the credit arising in its books of account as a result of the cancellation and extinguishment of the Scheme Ordinary Shares by paying up in full at par such number of Ordinary Shares as is equal to the number of Scheme Ordinary Shares cancelled and extinguished, which shall be allotted and issued and credited as fully paid at par to the Offeror as mentioned in paragraph (b) above.

**PART II****Consideration for the cancellation and extinguishment of the Scheme Ordinary Shares**

2. In consideration of the cancellation and extinguishment of the Scheme Ordinary Shares, the Offeror shall pay (or procure that there shall be paid) to each Scheme Ordinary Shareholder (as appears in the Register at the Scheme Ordinary Share Record Time on the Scheme Ordinary Share Record Date);

**for each Scheme Ordinary Share cancelled and extinguished..... HK\$0.11 in cash**

**PART III****General**

3. (a) As soon as possible and in any event not later than five (5) Business Days after the Effective Date, on request, the Company shall issue share certificate(s) to the Offeror.
- (b) As soon as possible and in any event not later than seven (7) Business Days (as defined under the Takeovers Code) after the Effective Date, the Offeror shall send or cause to be sent to the Scheme Ordinary Shareholders cheques representing the Ordinary Share Cancellation Price.

- (c) Unless otherwise indicated in writing to the Hong Kong branch share registrar and transfer office of the Company, being Tricor Progressive Limited, all cheques to be despatched to the Scheme Ordinary Shareholders shall be sent by ordinary post to the Scheme Ordinary Shareholders at their respective addresses as appearing in the Register at the Scheme Ordinary Share Record Time on the Scheme Ordinary Share Record Date.
  - (d) Cheques shall be posted at the risk of the addressees and neither the Offeror nor the Company shall be responsible for any loss or delay in receipt.
  - (e) Cheques shall be in favour 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 cheques shall be a good discharge to the Offeror for the monies represented thereby.
  - (f) On or after the day being six calendar months after the posting of the cheques pursuant to paragraph (b) of this Clause 3, the Offeror shall have the right to cancel or countermand payment of any such cheque which has not been encashed or has been returned uncashed and shall place all monies represented thereby in a deposit account in the Offeror's name with a licensed bank in Hong Kong selected by the Offeror. The Offeror shall hold such monies on trust for those entitled under the terms of the Ordinary Share Scheme of Arrangement until the expiration of six years from the Effective Date and shall prior to such date pay out of such monies the sums payable pursuant to the Ordinary Share Scheme of Arrangement to persons who satisfy the Offeror that they are entitled thereto and the cheques referred to in paragraph (b) of this Clause 3 of which they are payees have not been encashed. Any payments made by the Offeror shall not include any interest accrued on the sums to which the respective persons are entitled pursuant to the Ordinary Share Scheme of Arrangement. The Offeror shall exercise its absolute discretion in determining whether or not it is satisfied that any person is so entitled and a certificate of the 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.
  - (g) On the expiration of six years from the Effective Date, the Offeror and the Company shall be released from any further obligation to make any payments under the Ordinary Share Scheme of Arrangement.
  - (h) Paragraph (g) of this Clause 3 shall take effect subject to any prohibition or condition imposed by law.
  - (i) Upon cancellation of the Scheme Ordinary Shares, the Register shall be updated to reflect such cancellation and extinguishment.
4. As from the Effective Date, any instruments of transfer relating to and all certificates representing, the Scheme Ordinary Shares shall cease to have effect as documents of title (and/or for any purpose as an instrument of transfer) and every Scheme Ordinary Shareholder and every holder of such certificate shall be bound on the request of the Offeror to deliver up the same to the Offeror for cancellation thereof.

5. All mandates, representations, warranties, undertakings or relevant instructions to or by the Company in force at the Scheme Ordinary Share Record Time on the Scheme Ordinary Share Record Date relating to any of the Scheme Ordinary Shares shall cease to be valid as effective mandates, representations, warranties, undertakings or instructions on the Effective Date.
6. The Ordinary Share Scheme of Arrangement shall become effective as soon as a copy of the Order of the Grand Court sanctioning the Ordinary Share Scheme of Arrangement has been delivered to the Registrar of Companies in the Cayman Islands for registration pursuant to section 86(3) of the Companies Law.
7. Unless the Ordinary Share Scheme of Arrangement shall have become effective on or before 17 March, 2020 or such later date, if any, as the Offeror and the Company may agree or, to the extent applicable, as the Executive may consent and as the Grand Court on application of the Offeror or the Company may allow, the Ordinary Share Scheme of Arrangement shall lapse and be of no effect.
8. The Company and the Offeror may, subject to the approval of the Grand Court, jointly consent to any modification of or addition to the Ordinary Share Scheme of Arrangement or contained therein.
9. The Offeror and the Company have agreed that all costs, charges and expenses of the advisers and counsels appointed by the Company, including the Independent Financial Adviser, will be borne by the Company whereas all costs, charges and expenses of the advisers and counsels appointed by Offeror will be borne by the Offeror, and other costs, charges and expenses of the Ordinary Share Scheme of Arrangement incurred by each of the Offeror and the Company will be borne by them respectively.

Date 11 September 2019



IN THE GRAND COURT OF THE CAYMAN ISLANDS  
FINANCIAL SERVICES DIVISION

Cause No. FSD 149 of 2019

IN THE MATTER OF SECTIONS 15 AND 86 OF THE COMPANIES LAW (2018 REVISION) (AS AMENDED)  
AND IN THE MATTER OF THE GRAND COURT RULES 1995 ORDER 102  
AND IN THE MATTER of C.P. LOTUS CORPORATION 卜蜂蓮花有限公司

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**NOTICE OF ORDINARY SHARE COURT MEETING**

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**NOTICE IS HEREBY GIVEN** that, by an order (the “**Order**”) made in the above matter, the Grand Court of the Cayman Islands (the “**Court**”) has directed a meeting (the “**Ordinary Share Court Meeting**”) to be convened of the Independent Ordinary Shareholders (as defined in the Ordinary Share Scheme of Arrangement hereinafter mentioned) for the purpose of considering and, if thought fit, approving (voting together as a single class), a scheme of arrangement (the “**Ordinary Share Scheme of Arrangement**”) proposed to be made between C.P. Lotus Corporation 卜蜂蓮花有限公司 (the “**Company**”) and the Scheme Ordinary Shareholders (as defined in the Ordinary Share Scheme of Arrangement) and that the Ordinary Share Court Meeting will be held at Suite 6411-6413, 64/F., Two International Finance Centre, 8 Finance Street, Central, Hong Kong on Friday, 4 October 2019 at 9:30 a.m. (Hong Kong time) at which place and time all Independent Ordinary Shareholders are invited to attend.

A copy of the Ordinary Share Scheme of Arrangement and a copy of an explanatory statement explaining the effect of the Ordinary Share Scheme of Arrangement 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 Independent Ordinary Shareholders from the Hong Kong branch share registrar and transfer office of the Company, Tricor Progressive Limited, at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong.

Independent Ordinary Shareholders may vote in person at the Ordinary Share Court Meeting or they may appoint another person (who must be an individual), whether a member of the Company or not, to attend, speak and vote in their stead. A **pink** form of proxy for use at the Ordinary Share Court Meeting (or any adjournment thereof) is enclosed with the composite scheme document dated 11 September 2019 despatched to, among others, the Independent Ordinary Shareholders on 11 September 2019. Completion and return of the **pink** proxy form will not prevent an Independent Ordinary Shareholder from attending and voting at the Ordinary Share Court Meeting, or any adjournment thereof, in person if he/she wishes to do so and in such event, the **pink** proxy form previously submitted shall be deemed to have been revoked by operation of law.

In the case of Independent Ordinary Shareholders jointly holding ordinary shares of HK\$0.02 par value each in the share capital of the Company (the “**Ordinary Shares**”), any one of such persons may vote at the Ordinary Share Court Meeting, either personally or by proxy, in respect of such Ordinary Share as if he were solely entitled thereto. However, if more than one of such joint holders be present at the Ordinary Share 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 of Ordinary Shares, the first named Independent Ordinary Shareholder being the senior.

It is requested that **pink** forms appointing proxies be deposited at the Hong Kong branch share registrar and transfer office of the Company in Hong Kong at Tricor Progressive Limited, at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong not later than 9:30 a.m. on Wednesday, 2 October 2019, but if forms are not so lodged they may be handed to the chairman of the Ordinary Share Court Meeting at the Ordinary Share Court Meeting before the taking of the poll and the chairman of the Ordinary Share Court Meeting should have absolute discretion whether or not to accept them.

By the Order, the Court has appointed Mr. Li Wen Hai, a director of the Company, or failing him, Mr. Prasobsook Boondech, also a director of the Company, or failing him, any other person who is a director of the Company as at the date of the Ordinary Share Court Meeting, to act as the chairman of the Ordinary Share Court Meeting and has directed the chairman of the Ordinary Share Court Meeting to report the results of the Ordinary Share Court Meeting to the Court.

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

On behalf of the Court  
**C.P. Lotus Corporation**  
卜蜂蓮花有限公司  
**Liu Shek David**  
*Company Secretary*

Hong Kong, 11 September 2019

*Registered Office*  
Cricket Square  
Hutchins Drive  
P.O. Box 2681  
Grand Cayman KY1-1111  
Cayman Islands

*Principal Place of Business in Hong Kong*  
21st Floor  
Far East Finance Centre  
16 Harcourt Road  
Hong Kong

*Notes:*

- (1) An Independent Ordinary Shareholder entitled to attend and vote at the Ordinary Share Court Meeting is entitled to appoint one, and if such Independent Ordinary Shareholder is the holder of two or more Ordinary Shares, more than one proxy to attend and vote instead of him. A proxy need not be a member of the Company, but must attend the Ordinary Share Court Meeting in person to represent him.

- (2) A **pink** form of proxy for use at the Ordinary Share Court Meeting (or any adjournment thereof) is enclosed with the composite document containing the Ordinary Share Scheme of Arrangement dated 11 September 2019 despatched to, among others, the Independent Ordinary Shareholders.
- (3) In order to be valid, the **pink** form of proxy, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof, must be lodged with Tricor Progressive Limited, the Company's Hong Kong branch share registrar and transfer office at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, not less than 48 hours before the time for holding the Ordinary Share Court Meeting or any adjournment thereof but if forms are not so lodged they may be handed to the chairman of the Ordinary Share Court Meeting at the Ordinary Share Court Meeting before the taking of the poll and the chairman of the Ordinary Share Court Meeting should have absolute discretion whether or not to accept them. Completion and return of the **pink** form of proxy will not preclude an Independent Ordinary Shareholder from attending the Ordinary Share Court Meeting and voting in person if he so wishes. In the event that an Independent Ordinary Shareholder attends and votes at the Ordinary Share Court Meeting after having lodged his **pink** form of proxy, his **pink** form of proxy shall be deemed to have been revoked by operation of law.
- (4) In the case of joint Independent Ordinary Shareholders, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the vote(s) of the other joint holder(s) and, for this purpose, seniority will be determined by the order in which the names stand in the Register of Members of the Company in respect of the relevant joint holding of the Ordinary Shares.
- (5) Voting at the Ordinary Share Court Meeting will be taken by poll as required under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Hong Kong Code on Takeovers and Mergers.
- (6) The Register of Members of the Company in respect of the Ordinary Shares will be closed from Monday, 30 September 2019 to Friday, 4 October 2019 (both days inclusive) and during such period no transfer of Ordinary Shares will be registered. In order to be entitled to attend and vote at the Ordinary Share Court Meeting, all transfers accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrar and transfer office of the Company, Tricor Progressive Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Friday, 27 September 2019.

**NOTICE OF ORDINARY SHARE EXTRAORDINARY GENERAL MEETING**

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting (the “**Ordinary Share EGM**”) of holders of ordinary shares of HK\$0.02 par value each (the “**Ordinary Shares**”) in the share capital of C.P. Lotus Corporation 卜蜂蓮花有限公司 (the “**Company**”) will be held at Suite 6411-6413, 64/F., Two International Finance Centre, 8 Finance Street, Central, Hong Kong on Friday, 4 October 2019, at 10:30 a.m. (Hong Kong time) (or as soon as after the conclusion or the adjournment of the meeting of the Independent Ordinary Shareholders (as defined in the Ordinary Share Scheme of Arrangement 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 the following resolutions:

**SPECIAL RESOLUTIONS**1. “**THAT:**

- (a) pursuant to the ordinary share scheme of arrangement dated 11 September 2019 (the “**Ordinary Share Scheme of Arrangement**”) between the Company and the Scheme Ordinary Shareholders (as defined in the Ordinary Share Scheme of Arrangement) in the form of the print thereof, which has been produced to this meeting and for the purposes of identification signed by the chairman of this meeting, or in such other form and on such terms and conditions as may be approved or imposed by the Grand Court of the Cayman Islands, on the Effective Date (as defined in the Ordinary Share Scheme of Arrangement), the issued ordinary shares in the share capital of the Company shall be reduced by the cancellation and extinguishment of the Scheme Ordinary Shares (as defined in the Ordinary Share Scheme of Arrangement); and
- (b) 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 in connection with the implementation of the Ordinary Share Scheme of Arrangement and the reduction of the number of issued ordinary shares in the share capital of the Company pursuant to the Ordinary Share Scheme of Arrangement, including (without limitation) giving consent to any modification of, or addition to, the Ordinary Share Scheme of Arrangement or the reduction of the number of issued ordinary shares in the share capital of the Company which the Grand Court of the Cayman Islands may see fit to impose.”

2. “**THAT:**

- (a) subject to the Ordinary Share Scheme of Arrangement has become effective, the withdrawal of the listing of the ordinary shares of the Company from The Stock Exchange of Hong Kong Limited be and is here approved; and
- (b) 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 ordinary shares of the Company.”

**ORDINARY RESOLUTION**3. **“THAT:**

- (a) subject to and simultaneously with the cancellation and extinguishment of the Scheme Ordinary Shares referred to in resolution 1(a) taking effect, the number of issued ordinary shares in the share capital of the Company be restored to its former amount by allotting and issuing to the Offeror (as defined in the Ordinary Share Scheme of Arrangement), credited as fully paid at par, the same number of ordinary shares of HK\$0.02 each in the share capital of the Company as is equal to the number of Scheme Ordinary Shares cancelled;
- (b) the credit arising in the books of account of the Company consequent upon the reduction of its issued share capital resulting from the cancellation and extinguishment of the Scheme Ordinary Shares referred to in resolution 1(a) shall be applied by the Company in paying up in full at par the new ordinary shares allotted and issued to the Offeror pursuant to resolution 3(a) above, and any one of the directors of the Company be and is hereby authorised to allot and issue the same accordingly; and
- (c) 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 in connection with the implementation of the Ordinary Share Scheme of Arrangement and the restoration of capital pursuant to the Ordinary Share Scheme of Arrangement, including (without limitation) the giving of consent to any modification of, or addition to, the Ordinary Share Scheme of Arrangement or the restoration of capital, which the Grand Court of the Cayman Islands may see fit to impose.”

**SPECIAL RESOLUTION**4. **“THAT:**

- (a) pursuant to the series C convertible preference shares scheme of arrangement dated 11 September 2019 (the “**CPS Scheme of Arrangement**”) between the Company and the Scheme CPS Holders (as defined in the CPS Scheme of Arrangement) in the form of the print thereof, which has been produced to this meeting and for the purposes of identification signed by the chairman of this meeting, or in such other form and on such terms and conditions as may be approved or imposed by the Grand Court of the Cayman Islands, on the Effective Date (as defined in the CPS Scheme of Arrangement), the issued series C convertible preference shares in the share capital of the Company shall be reduced by the cancellation and extinguishment of the Scheme CPS (as defined in the CPS Scheme of Arrangement); and

- (b) 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 in connection with the implementation of the CPS Scheme of Arrangement and the reduction of the number of issued series C convertible preference shares in the share capital of the Company pursuant to the CPS Scheme of Arrangement, including (without limitation) giving consent to any modification of, or addition to, the CPS Scheme of Arrangement or the reduction of the number of issued series C convertible preference shares in the share capital of the Company which the Grand Court of the Cayman Islands may see fit to impose.”

#### ORDINARY RESOLUTION

5. “**THAT:**

- (a) subject to and simultaneously with the cancellation and extinguishment of the Scheme CPS referred to in resolution 4(a) taking effect, the number of issued series C convertible preference shares in the share capital of the Company be restored to its former amount by allotting and issuing to the Offeror (as defined in the CPS Scheme of Arrangement), credited as fully paid at par, the same number of series C convertible preference shares of HK\$0.02 each in the share capital of the Company as is equal to the number of Scheme CPS cancelled;
- (b) the credit arising in the books of account of the Company consequent upon the reduction of its issued share capital resulting from the cancellation and extinguishment of the Scheme CPS referred to in resolution 4(a) shall be applied by the Company in paying up in full at par the new series C convertible preference shares allotted and issued to the Offeror pursuant to resolution 5(a) above, and any one of the directors of the Company be and is hereby authorised to allot and issue the same accordingly; and
- (c) 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 in connection with the implementation of the CPS Scheme of Arrangement and the restoration of capital pursuant to the CPS Scheme of Arrangement, including (without limitation) the giving of consent to any modification of, or addition to, the CPS Scheme of Arrangement or the restoration of capital, which the Grand Court of the Cayman Islands may see fit to impose.”

On behalf of the board of directors of

**C.P. Lotus Corporation**

卜蜂蓮花有限公司

**Liu Shek David**

*Company Secretary*

Hong Kong, 11 September 2019

*Registered office:*

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

*Principal Place of Business in Hong Kong:*

21st Floor  
Far East Finance Centre  
16 Harcourt Road  
Hong Kong

*Notes:*

- (1) A member entitled to attend and vote at the Ordinary Share EGM is entitled to appoint one, and if such member is the holder of two or more Ordinary Shares, more than one proxy to attend and vote instead of him. A proxy need not be a member of the Company, but must attend the Ordinary Share EGM in person to represent him.
- (2) A **white** form of proxy for use at the Ordinary Share EGM (or any adjournment thereof) is enclosed with the composite document containing the Ordinary Share Scheme of Arrangement dated 11 September 2019 despatched to, among others, holders of Ordinary Shares (the “**Ordinary Shareholders**”).
- (3) In order to be valid, the **white** form of proxy, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof, must be lodged with Tricor Progressive Limited, the Company’s Hong Kong branch share registrar and transfer office at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong, not less than 48 hours before the time for holding the Ordinary Share EGM or any adjournment thereof failing which the **white** form of proxy will not be valid. Completion and return of the **white** form of proxy will not preclude an Ordinary Shareholder from attending the Ordinary Share EGM and voting in person if he so wishes. In the event that an Ordinary Shareholder attends and votes at the Ordinary Share EGM after having lodged his **white** form of proxy, his **white** form of proxy will be deemed to have been revoked by operation of law.
- (4) In the case of joint holders of Ordinary Shares, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the vote(s) of the other joint holder(s) and, for this purpose, seniority will be determined by the order in which the names stand in the Register of Members of the Company in respect of the relevant joint holding.
- (5) Voting at the Ordinary Share EGM will be taken by poll as required under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Hong Kong Code on Takeovers and Mergers.
- (6) The Register of Members of the Company in respect of the Ordinary Shares will be closed from Monday, 30 September 2019 to Friday, 4 October 2019 (both days inclusive) and during such period no transfer of Ordinary Shares will be registered. In order to be entitled to attend and vote at the Ordinary Share EGM, all transfers accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrar and transfer office of the Company, Tricor Progressive Limited, at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong not later than 4:30 p.m. on Friday, 27 September 2019.

IN THE GRAND COURT OF THE CAYMAN ISLANDS  
FINANCIAL SERVICES DIVISION

Cause No. FSD 149 of 2019

IN THE MATTER OF SECTIONS 15 AND 86 OF THE COMPANIES LAW (2018 REVISION) (AS AMENDED)  
AND IN THE MATTER OF THE GRAND COURT RULES 1995 ORDER 102  
AND IN THE MATTER of C.P. LOTUS CORPORATION 卜蜂蓮花有限公司

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**CPS SCHEME OF ARRANGEMENT**

**Between**

**C.P. Lotus Corporation**  
卜蜂蓮花有限公司

**and**

**THE SCHEME CPS HOLDERS**  
(as hereinafter defined)

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

<b>“acting in concert”</b>	has the same meaning ascribed to it in the Takeovers Code
<b>“Board”</b>	the board of Directors
<b>“Business Day”</b>	a day other than a Saturday, Sunday or a public holiday in Hong Kong or the Cayman Islands
<b>“Company”</b>	C.P. Lotus Corporation 卜蜂蓮花有限公司, an exempted company incorporated in the Cayman Islands on 18 September 1990 with limited liability, the Ordinary Shares are currently listed on the Main Board of the Stock Exchange (stock code: 00121)
<b>“Companies Law”</b>	the Companies Law Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands



<b>“Composite Scheme Document”</b>	the composite scheme document of the Company and the Offeror issued to, among others, the Independent CPS Holders containing, inter alia, further details of the Proposal
<b>“CPS”</b>	the unlisted, non-voting (save and except for resolution for the winding-up of the Company or resolution if passed would vary or abrogate the rights and privileges of the CPS Holders) series C convertible preference shares of HK\$0.02 par value each in the share capital of the Company, which are currently convertible into Ordinary Shares at a conversion ratio of 1 to 1 (subject to adjustment) and the conversion is subject to the minimum public float requirement under the Rules Governing the Listing of Securities on the Stock Exchange
<b>“CPS Cancellation Price”</b>	the cancellation price of HK\$0.11 per Scheme CPS payable in cash by the Offeror to the Scheme CPS Holders pursuant to the CPS Scheme of Arrangement for every Scheme CPS cancelled and extinguished
<b>“CPS Court Meeting”</b>	a meeting of the Independent CPS Holders convened at the direction of the Grand Court at which the CPS Scheme of Arrangement will be voted upon
<b>“CPS Scheme Court Meeting Record Date”</b>	Friday, 4 October 2019 or such other date as may be announced to, among others, the Independent CPS Holders, being the record date for the purpose of determining the entitlement of the Independent CPS Holders to attend and vote at the CPS Court Meeting
<b>“CPS Holder(s)”</b>	holder(s) of the CPS
<b>“CPS Scheme Conditions”</b>	the conditions to the implementation of the CPS Scheme of Arrangement as set out in the section headed “CPS Scheme Conditions” in the explanatory statement of the Composite Scheme Document
<b>“CPS Scheme of Arrangement”</b>	a scheme of arrangement between the Company and the Scheme CPS Holders under Section 86 of the Companies Law (subject to satisfaction (or waiver as applicable) of the CPS Scheme Conditions) involving the cancellation and reduction of all the Scheme CPS and the restoration of the number of CPS to the amount immediately before the cancellation and reduction of the Scheme CPS
<b>“Director”</b>	a director of the Company

<b>“Effective Date”</b>	the date on which the CPS Scheme of Arrangement, if approved 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 CPS Scheme of Arrangement and confirming the reduction of issued share capital resulting from the cancellation of the Scheme CPS 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)
<b>“Executive”</b>	the Executive Director of the Corporate Finance Division of the Securities and Futures Commission of Hong Kong or any delegate thereof
<b>“Grand Court”</b>	the Grand Court of the Cayman Islands
<b>“HK\$”</b>	Hong Kong dollar(s), the lawful currency of Hong Kong
<b>“Hong Kong”</b>	the Hong Kong Special Administrative Region of the People’s Republic of China
<b>“Independent Board Committee”</b>	the independent board committee of the Company established by the Board to make a recommendation to the Independent CPS Holders in respect of, among others, the Proposal and the CPS Scheme of Arrangement, comprising Viroj Sangsrit, Songkitti Jaggabatara, Itthaporn Subhawong, Prasobsook Boondech and Cheng Yuk Wo
<b>“Independent Financial Adviser”</b>	Able Capital Partners Limited, the independent financial adviser to the Independent Board Committee appointed pursuant to Rule 2.1 of the Takeovers Code in relation to, among others, the Proposal and the CPS Scheme of Arrangement, being a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
<b>“Independent CPS Holders”</b>	the CPS Holders other than the Offeror
<b>“Latest Practicable Date”</b>	6 September 2019, being the latest practicable date prior to the printing of the Composite Scheme Document for ascertaining certain information contained herein

<b>“Offeror”</b>	C.P. Holding (BVI) Investment Company Limited, a company incorporated in the British Virgin Islands with limited liability and which is an indirectly wholly-owned subsidiary of the Ultimate Parent
<b>“Offeror Concert Parties”</b>	parties acting in concert with or presumed to be acting in concert with the Offeror under the definition of “acting in concert” under the Takeovers Code, being the Principal Offeror Concert Party and the Other Offeror Concert Parties
<b>“Ordinary Share(s)”</b>	ordinary share(s) of HK\$0.02 par value each in the share capital of the Company
<b>“Ordinary Share Scheme of Arrangement”</b>	a scheme of arrangement between the Company and certain holders of Ordinary Shares under Section 86 of the Companies Law
<b>“Other Offeror Concert Parties”</b>	Offeror Concert Parties holding Ordinary Shares in the Company, excluding the Principal Offeror Concert Party
<b>“Principal Offeror Concert Party”</b>	CPG Enterprise Limited, a company incorporated in the British Virgin Islands which is indirectly owned as to 99.99% by the Ultimate Parent, the ultimate controlling shareholder of the Company and which ultimately and indirectly owns the Offeror
<b>“Proposal”</b>	the proposal for the privatisation of the Company by the Offeror by way of the Ordinary Share Scheme of Arrangement and the CPS Scheme of Arrangement
<b>“Register”</b>	the principal or branch register of members of the Company (as the case may be) in respect of the CPS
<b>“Scheme CPS”</b>	CPS other than those directly or indirectly held by the Offeror as at the Scheme CPS Record Time on the Scheme CPS Record Date
<b>“Scheme CPS Record Date”</b>	Monday, 14 October 2019 or such other date as shall have been announced to the Independent CPS Holders, being the record date for the purpose of determining the entitlement of the Independent CPS Holders to the CPS Cancellation Price upon the CPS Scheme of Arrangement becoming effective

<b>“Scheme CPS Record Time”</b>	4:00 p.m. (Hong Kong time) on the Scheme CPS Record Date
<b>“Scheme CPS Holder(s)”</b>	the holder(s) of Scheme CPS as at the Scheme CPS Record Time on the Scheme CPS Record Date
<b>“SFO”</b>	the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
<b>“Stock Exchange”</b>	The Stock Exchange of Hong Kong Limited
<b>“Takeovers Code”</b>	the Code on Takeovers and Mergers of Hong Kong
<b>“Ultimate Parent”</b>	Charoen Pokphand Group Company Limited, a company organised and existing under the laws of the Kingdom of Thailand

- (B) The Company was incorporated as an exempted company on 18 September 1990 with limited liability in the Cayman Islands under the Companies Law.
- (C) The Company has an authorised share capital of HK\$940,000,000 divided into 34,000,000,000 Ordinary Shares, 2,000,000,000 series A convertible preference shares of par value of HK\$0.02 each, 4,000,000,000 series B convertible preference shares of par value of HK\$0.02 each, 4,500,000,000 CPS and 2,500,000,000 series D convertible preference shares of par value of HK\$0.02 each.
- (D) The Offeror, which is indirectly wholly owned by the Ultimate Parent, has proposed the privatisation of the Company by way of the CPS Scheme of Arrangement and the Ordinary Share Scheme of Arrangement.
- (E) The primary purpose of the CPS Scheme of Arrangement (together with the Ordinary Share Scheme of Arrangement) is to privatise the Company by cancelling and extinguishing, among others, all of the Scheme CPS in consideration for the CPS Cancellation Price so that after the completion of the CPS Scheme of Arrangement (as well as the Ordinary Share Scheme of Arrangement), the Offeror and the Principal Offeror Concert Party will own 100% of the Company. Simultaneously with the cancellation of the Scheme CPS, the issued share capital of the Company will be restored to its former amount by the issue to the Offeror credited as fully paid at par such number of CPS as is equal to the number of Scheme CPS cancelled and extinguished.

- (F) As at the Latest Practicable Date, 3,667,901,964 CPS were legally and/or beneficially owned by the Offeror and registered as follows:

CPS	As at the Latest Practicable Date		As at the Effective Date (assuming no CPS is converted into Ordinary Shares)	
	Number of CPS	%	Number of CPS	%
<b>Offeror</b> (which represent aggregate number of CPS not voting on the CPS Scheme of Arrangement)	3,667,901,964	99.90	3,671,509,764	100
<b>Scheme CPS Holders</b> who are independent (i.e., Independent CPS Holders)	<u>3,607,800</u>	<u>0.10</u>	<u>—</u>	<u>—</u>
<b>Total CPS in issue</b>	3,671,509,764	100	—	—
<b>Total number of Scheme CPS</b> (which represent all issued CPS except for those held by the Offeror)	3,607,800	0.10	—	—

- (G) The Offeror will not vote at the CPS Court Meeting convened at the direction of the Grand Court for the purpose of considering and, if thought fit, approving the CPS Scheme of Arrangement. Only the Independent CPS Holders will attend and vote at the CPS Court Meeting.

- (H) Each of the Offeror Concert Parties has undertaken to the Grand Court to be bound by the terms of the CPS Scheme of Arrangement and to execute and do and procure to be executed and done all such documents, acts and things as may be necessary or desirable for the purpose of giving effect to and satisfying its/his obligations under the CPS Scheme of Arrangement.

## **CPS SCHEME OF ARRANGEMENT**

### **PART I**

#### **Cancellation of the Scheme CPS and issue of new CPS credited as fully paid at par to the Offeror**

1. On the Effective Date:
  - (a) the issued share capital of the Company shall be reduced by cancelling and extinguishing the Scheme CPS and the Scheme CPS Holders shall cease to have any right with respect to the Scheme CPS except the right to receive the CPS Cancellation Price;
  - (b) subject to and forthwith upon such reduction of issued share capital taking effect, the issued share capital of the Company will be restored to its former amount by issuing to the Offeror the same number of CPS as is equal to the number of Scheme CPS cancelled and extinguished; and
  - (c) the Company shall apply the credit arising in its books of account as a result of the cancellation and extinguishment of the Scheme CPS by paying up in full at par such number of CPS as is equal to the number of Scheme CPS cancelled and extinguished, which shall be allotted and issued and credited as fully paid at par to the Offeror as mentioned in paragraph (b) above.

### **PART II**

#### **Consideration for the cancellation and extinguishment of the Scheme CPS**

2. In consideration of the cancellation and extinguishment of the Scheme CPS, the Offeror shall pay (or procure that there shall be paid) to each Scheme CPS Holder (as appears in the Register at the Scheme CPS Record Time on the Scheme CPS Record Date);

**for each Scheme CPS cancelled and extinguished..... HK\$0.11 in cash**

### **PART III**

#### **General**

3. (a) As soon as possible and in any event not later than five (5) Business Days after the Effective Date, on request, the Company shall issue share certificate(s) to the Offeror.

- (b) As soon as possible and in any event not later than seven (7) Business Days (as defined under the Takeovers Code) after the Effective Date, the Offeror shall send or cause to be sent to the Scheme CPS Holders cheques representing the CPS Cancellation Price.
  - (c) Unless otherwise indicated in writing to the Hong Kong branch share registrar and transfer office of the Company, being Tricor Progressive Limited, all cheques to be despatched to the Scheme CPS Holders shall be sent by ordinary post to the Scheme CPS Holders at their respective addresses as appearing in the Register at the Scheme CPS Record Time on the Scheme CPS Record Date.
  - (d) Cheques shall be posted at the risk of the addressees and neither the Offeror nor the Company shall be responsible for any loss or delay in receipt.
  - (e) Cheques shall be in favour 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 cheques shall be a good discharge to the Offeror for the monies represented thereby.
  - (f) On or after the day being six calendar months after the posting of the cheques pursuant to paragraph (b) of this Clause 3, the Offeror shall have the right to cancel or countermand payment of any such cheque which has not been encashed or has been returned uncashed and shall place all monies represented thereby in a deposit account in the Offeror's name with a licensed bank in Hong Kong selected by the Offeror. The Offeror shall hold such monies on trust for those entitled under the terms of the CPS Scheme of Arrangement until the expiration of six years from the Effective Date and shall prior to such date pay out of such monies the sums payable pursuant to the CPS Scheme of Arrangement to persons who satisfy the Offeror that they are entitled thereto and the cheques referred to in paragraph (b) of this Clause 3 of which they are payees have not been encashed. Any payments made by the Offeror shall not include any interest accrued on the sums to which the respective persons are entitled pursuant to the CPS Scheme of Arrangement. The Offeror shall exercise its absolute discretion in determining whether or not it is satisfied that any person is so entitled and a certificate of the 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.
  - (g) On the expiration of six years from the Effective Date, the Offeror and the Company shall be released from any further obligation to make any payments under the CPS Scheme of Arrangement.
  - (h) Paragraph (g) of this Clause 3 shall take effect subject to any prohibition or condition imposed by law.
  - (i) Upon cancellation of the Scheme CPS, the Register shall be updated to reflect such cancellation and extinguishment.
4. As from the Effective Date, any instruments of transfer relating to and all certificates representing, the Scheme CPS shall cease to have effect as documents of title (and/or for any purpose as an instrument of transfer) and every Scheme CPS Holder and every holder of such certificate shall be bound on the request of the Offeror to deliver up the same to the Offeror for cancellation thereof.

5. All mandates, representations, warranties, undertakings or relevant instructions to or by the Company in force at the Scheme CPS Record Time on the Scheme CPS Record Date relating to any of the Scheme CPS shall cease to be valid as effective mandates, representations, warranties, undertakings or instructions on the Effective Date.
6. The CPS Scheme of Arrangement shall become effective as soon as a copy of the Order of the Grand Court sanctioning the CPS Scheme of Arrangement has been delivered to the Registrar of Companies in the Cayman Islands for registration pursuant to section 86(3) of the Companies Law.
7. Unless the CPS Scheme of Arrangement shall have become effective on or before 17 March, 2020 or such later date, if any, as the Offeror and the Company may agree or, to the extent applicable, as the Executive may consent and as the Grand Court on application of the Offeror or the Company may allow, the CPS Scheme of Arrangement shall lapse and be of no effect.
8. The Company and the Offeror may, subject to the approval of the Grand Court, jointly consent to any modification of or addition to the CPS Scheme of Arrangement or contained therein.
9. The Offeror and the Company have agreed that all costs, charges and expenses of the advisers and counsels appointed by the Company, including the Independent Financial Adviser, will be borne by the Company whereas all costs, charges and expenses of the advisers and counsels appointed by Offeror will be borne by the Offeror, and other costs, charges and expenses of the CPS Scheme of Arrangement incurred by each of the Offeror and the Company will be borne by them respectively.

Date 11 September 2019



IN THE GRAND COURT OF THE CAYMAN ISLANDS  
FINANCIAL SERVICES DIVISION

Cause No. FSD 149 of 2019

IN THE MATTER OF SECTIONS 15 AND 86 OF THE COMPANIES LAW (2018 REVISION) (AS AMENDED)

AND IN THE MATTER OF THE GRAND COURT RULES 1995 ORDER 102

AND IN THE MATTER of C.P. LOTUS CORPORATION 卜蜂蓮花有限公司

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**NOTICE OF CPS COURT MEETING**

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**NOTICE IS HEREBY GIVEN** that, by an order (the “**Order**”) made in the above matter, the Grand Court of the Cayman Islands (the “**Court**”) has directed a meeting (the “**CPS Court Meeting**”) to be convened of the Independent CPS Holders (as defined in the CPS Scheme of Arrangement hereinafter mentioned) for the purpose of considering and, if thought fit, approving (voting together as a single class), a scheme of arrangement (the “**CPS Scheme of Arrangement**”) proposed to be made between C.P. Lotus Corporation 卜蜂蓮花有限公司 (the “**Company**”) and the Scheme CPS Holders (as defined in the CPS Scheme of Arrangement) and that the CPS Court Meeting will be held at Suite 6411-6413, 64/F., Two International Finance Centre, 8 Finance Street, Central, Hong Kong on Friday, 4 October 2019 at 11:30 a.m. (Hong Kong time) at which place and time all Independent CPS Holders are invited to attend.

A copy of the CPS Scheme of Arrangement and a copy of an explanatory statement explaining the effect of the CPS Scheme of Arrangement 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 Independent CPS Holders from the Hong Kong branch share registrar and transfer office of the Company, Tricor Progressive Limited, at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong.

Independent CPS Holders may vote in person at the CPS Court Meeting or they may appoint another person (who must be an individual), whether a member of the Company or not, to attend, speak and vote in their stead. A **green** form of proxy for use at the CPS Court Meeting (or any adjournment thereof) is enclosed with the composite scheme document dated 11 September 2019 despatched to, among others, the Independent CPS Holders on 11 September 2019. Completion and return of the **green** proxy form will not prevent an Independent CPS Holder from attending and voting at the CPS Court Meeting, or any adjournment thereof, in person if he/she wishes to do so and in such event, the **green** proxy form previously submitted shall be deemed to have been revoked by operation of law.

In the case of Independent CPS Holders jointly holding series C convertible preference shares of HK\$0.02 par value each in the share capital of the Company (the “CPS”), any one of such persons may vote at the CPS Court Meeting, either personally or by proxy, in respect of such CPS as if he were solely entitled thereto. However, if more than one of such joint holders be present at the CPS 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 of CPS, the first named Independent CPS Holder being the senior.

It is requested that **green** forms appointing proxies be deposited at the Hong Kong branch share registrar and transfer office of the Company in Hong Kong at Tricor Progressive Limited, at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong not later than 11:30 a.m. on Wednesday, 2 October 2019, but if forms are not so lodged they may be handed to the chairman of the CPS Court Meeting at the CPS Court Meeting before the taking of the poll and the chairman of the CPS Court Meeting should have absolute discretion whether or not to accept them.

By the Order, the Court has appointed Mr. Li Wen Hai, a director of the Company, or failing him, Mr. Prasobsook Boondech, also a director of the Company, or failing him, any other person who is a director of the Company as at the date of the CPS Court Meeting, to act as the chairman of the CPS Court Meeting and has directed the chairman of the CPS Court Meeting to report the results of the CPS Court Meeting to the Court.

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

On behalf of the Court  
**C.P. Lotus Corporation**  
卜蜂蓮花有限公司  
**Liu Shek David**  
*Company Secretary*

Hong Kong, 11 September 2019

*Registered Office*  
Cricket Square  
Hutchins Drive  
P.O. Box 2681  
Grand Cayman KY1-1111  
Cayman Islands

*Principal Place of Business in Hong Kong*  
21st Floor  
Far East Finance Centre  
16 Harcourt Road  
Hong Kong

*Notes:*

- (1) An Independent CPS Holder entitled to attend and vote at the CPS Court Meeting is entitled to appoint one, and if such Independent CPS Holder is the holder of two or more CPS, more than one proxy to attend and vote instead of him. A proxy need not be a member of the Company, but must attend the CPS Court Meeting in person to represent him.

- (2) A **green** form of proxy for use at the CPS Court Meeting (or any adjournment thereof) is enclosed with the composite document containing the CPS Scheme of Arrangement dated 11 September 2019 despatched to, among others, the Independent CPS Holders.
- (3) In order to be valid, the **green** form of proxy, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof, must be lodged with Tricor Progressive Limited, the Company's Hong Kong branch share registrar and transfer office at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, not less than 48 hours before the time for holding the CPS Court Meeting or any adjournment thereof but if forms are not so lodged they may be handed to the chairman of the CPS Court Meeting at the CPS Court Meeting before the taking of the poll and the chairman of the CPS Court Meeting should have absolute discretion whether or not to accept them. Completion and return of the **green** form of proxy will not preclude an Independent CPS Holder from attending the CPS Court Meeting and voting in person if he so wishes. In the event that an Independent CPS Holder attends and votes at the CPS Court Meeting after having lodged his **green** form of proxy, his **green** form of proxy shall be deemed to have been revoked by operation of law.
- (4) In the case of joint Independent CPS Holders, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the vote(s) of the other joint holder(s) and, for this purpose, seniority will be determined by the order in which the names stand in the Register of Members of the Company in respect of the relevant joint holding of the CPS.
- (5) Voting at the CPS Court Meeting will be taken by poll as required under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Hong Kong Code on Takeovers and Mergers.
- (6) The Register of Members of the Company in respect of the CPS will be closed from Monday, 30 September 2019 to Friday, 4 October 2019 (both days inclusive) and during such period no transfer of CPS will be registered. In order to be entitled to attend and vote at the CPS Court Meeting, all transfers accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrar and transfer office of the Company, Tricor Progressive Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Friday, 27 September 2019.

**NOTICE OF SERIES C CONVERTIBLE PREFERENCE SHARES  
EXTRAORDINARY GENERAL MEETING**

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting (the “**CPS EGM**”) of holders of series C convertible preference shares of HK\$0.02 par value each (the “**CPS**”) in the share capital of C.P. Lotus Corporation 卜蜂蓮花有限公司 (the “**Company**”) will be held at Suite 6411-6413, 64/F., Two International Finance Centre, 8 Finance Street, Central, Hong Kong on Friday, 4 October 2019, at 12:30 p.m. (Hong Kong time) (or as soon as after the conclusion or the adjournment of the meeting of the Independent CPS Holders (as defined in the CPS Scheme of Arrangement 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 the following resolutions (voting together as a single class):

**SPECIAL RESOLUTION**

1. **“THAT:**

- (a) pursuant to the series C convertible preference shares scheme of arrangement dated 11 September 2019 (the “**CPS Scheme of Arrangement**”) between the Company and the Scheme CPS Holders (as defined in the CPS Scheme of Arrangement) in the form of the print thereof, which has been produced to this meeting and for the purposes of identification signed by the chairman of this meeting, or in such other form and on such terms and conditions as may be approved or imposed by the Grand Court of the Cayman Islands, on the Effective Date (as defined in the CPS Scheme of Arrangement), the issued series C convertible preference shares in the share capital of the Company shall be reduced by the cancellation and extinguishment of the Scheme CPS (as defined in the CPS Scheme of Arrangement); and
- (b) 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 in connection with the implementation of the CPS Scheme of Arrangement and the reduction of the number of issued series C convertible preference shares in the share capital of the Company pursuant to the CPS Scheme of Arrangement, including (without limitation) giving consent to any modification of, or addition to, the CPS Scheme of Arrangement or the reduction of the number of issued series C convertible preference shares in the share capital of the Company which the Grand Court of the Cayman Islands may see fit to impose.”

**ORDINARY RESOLUTION**

2. **“THAT:**

- (a) subject to and simultaneously with the cancellation and extinguishment of the Scheme CPS referred to in resolution 1(a) taking effect, the number of issued series C convertible preference shares in the share capital of the Company be restored to its former amount by allotting and issuing to the Offeror (as defined in the CPS Scheme of Arrangement), credited as fully paid at par, the same number of series C convertible preference shares of HK\$0.02 each in the share capital of the Company as is equal to the number of Scheme CPS cancelled;

- (b) the credit arising in the books of account of the Company consequent upon the reduction of its issued share capital resulting from the cancellation and extinguishment of the Scheme CPS referred to in resolution 1(a) shall be applied by the Company in paying up in full at par the new series C convertible preference shares allotted and issued to the Offeror pursuant to resolution 2(a) above, and any one of the directors of the Company be and is hereby authorised to allot and issue the same accordingly; and
- (c) 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 in connection with the implementation of the CPS Scheme of Arrangement and the restoration of capital pursuant to the CPS Scheme of Arrangement, including (without limitation) the giving of consent to any modification of, or addition to, the CPS Scheme of Arrangement or the restoration of capital, which the Grand Court of the Cayman Islands may see fit to impose.”

On behalf of the board of directors of  
**C.P. Lotus Corporation**  
卜蜂蓮花有限公司  
**Liu Shek David**  
*Company Secretary*

Hong Kong, 11 September 2019

*Registered office:*

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

*Principal Place of Business in Hong Kong:*

21st Floor  
Far East Finance Centre  
16 Harcourt Road  
Hong Kong

*Notes:*

- (1) A member entitled to attend and vote at the CPS EGM is entitled to appoint one, and if such member is the holder of two or more CPS, more than one proxy to attend and vote instead of him. A proxy need not be a member of the Company, but must attend the CPS EGM in person to represent him.
- (2) A **yellow** form of proxy for use at the CPS EGM (or any adjournment thereof) is enclosed with the composite document containing the CPS Scheme of Arrangement dated 11 September 2019 despatched to, among others, the holders of CPS (the “**CPS Holders**”).

- (3) In order to be valid, the **yellow** form of proxy, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof, must be lodged with Tricor Progressive Limited, the Company's Hong Kong branch share registrar and transfer office at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, not less than 48 hours before the time for holding the CPS EGM or any adjournment thereof failing which the **yellow** form of proxy will not be valid. Completion and return of the **yellow** form of proxy will not preclude a CPS Holder from attending the CPS EGM and voting in person if he so wishes. In the event that a CPS Holder attends and votes at the CPS EGM after having lodged his **yellow** form of proxy, his **yellow** form of proxy will be deemed to have been revoked by operation of law.
- (4) In the case of joint holders of CPS, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the vote(s) of the other joint holder(s) and, for this purpose, seniority will be determined by the order in which the names stand in the Register of Members of the Company in respect of the relevant joint holding.
- (5) Voting at the CPS EGM will be taken by poll as required under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Hong Kong Code on Takeovers and Mergers.
- (6) The Register of Members of the Company in respect of the CPS will be closed from Monday, 30 September 2019 to Friday, 4 October 2019 (both days inclusive) and during such period no transfer of CPS will be registered. In order to be entitled to attend and vote at the CPS EGM, all transfers accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrar and transfer office of the Company, Tricor Progressive Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Friday, 27 September 2019.