

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

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

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This Scheme Document appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for any securities of Dah Chong Hong Holdings Limited.



中信泰富有限公司
CITIC PACIFIC LIMITED

(Incorporated in the British Virgin Islands with limited liability)



大昌行集團有限公司
DAH CHONG HONG HOLDINGS LIMITED

(Incorporated in Hong Kong with limited liability)
(Stock Code: 01828)

**(1) PROPOSAL FOR THE PRIVATISATION OF
DAH CHONG HONG HOLDINGS LIMITED
BY CITIC PACIFIC LIMITED BY WAY OF
A SCHEME OF ARRANGEMENT
UNDER SECTION 673 OF THE COMPANIES ORDINANCE
AND
(2) PROPOSED WITHDRAWAL OF LISTING OF
DAH CHONG HONG HOLDINGS LIMITED**

Exclusive Financial Adviser to CITIC Pacific Limited



CLSA Capital Markets Limited

Independent Financial Adviser to the Independent Board Committee



Unless the context otherwise requires, capitalised terms used in this Scheme Document (including this cover page) are defined in the section headed "Definitions" of this Scheme Document.

A letter from the Board is set out on pages 14 to 22 of this Scheme Document. A letter from the Independent Board Committee containing its advice to the Independent Shareholders in relation to the Proposal is set out on pages 23 to 24 of this Scheme Document. A letter from Somerley, being the Independent Financial Adviser, containing its advice to the Independent Board Committee in relation to the Proposal is set out on pages 25 to 61 of this Scheme Document. An Explanatory Statement is set out on pages 62 to 81 of this Scheme Document.

The actions to be taken by the Shareholders are set out on pages 1 to 4 of this Scheme Document.

Notices convening the Court Meeting and the General Meeting to be held at Salon 1-5 of JW Marriott Ballroom, Level 3, JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Thursday, 19 December 2019 at 10:30 a.m. and 10:45 a.m. respectively (or, in the case of the General Meeting, as soon thereafter as the Court Meeting shall have concluded or been adjourned) are set out on pages 105 to 107 and 108 to 110 of this Scheme Document respectively. Whether or not you are able to attend the Court Meeting and/or the General Meeting or any adjournment thereof in person, if you are a Scheme Shareholder, you are strongly urged to complete and sign the enclosed pink form of proxy in respect of the Court Meeting and if you are a Shareholder, you are strongly urged to complete and sign the enclosed white form of proxy in respect of the General Meeting, in accordance with the instructions printed thereon and to lodge them with the Share Registrar at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible, but in any event no later than the respective times and dates as stated under the section headed "Actions to be taken" set out on pages 1 to 4 of this Scheme Document. Completion and return of the forms of proxy for the Court Meeting and/or the General Meeting will not preclude you from attending and voting in person at the relevant meeting or any adjournment thereof, should you so wish. In the event that you attend and vote at the relevant meeting or any adjournment thereof after having lodged your form(s) of proxy, the returned form(s) of proxy shall be deemed to have been revoked.

This Scheme Document is issued jointly by the Offeror and the Company. In case of inconsistency, the English language text of this Scheme Document shall prevail over the Chinese language text.

2 December 2019

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

NOTICE TO US INVESTORS

The Proposal is being made to cancel the securities of a Hong Kong company by means of a scheme of arrangement provided for under the Companies Ordinance and is subject to Hong Kong disclosure requirements, which are different from those of the United States. 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 the financial information of US companies or companies whose financial statements are prepared in accordance with generally accepted accounting principles of 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 requirements and practices applicable in Hong Kong to schemes of arrangement which differ from the requirements of the US tender offer rules.

This Scheme Document does not constitute an offer or invitation to purchase or subscribe for any securities of the Company in the United States.

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

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

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ACTIONS TO BE TAKEN

1. ACTIONS TO BE TAKEN BY THE SHAREHOLDERS

For the purpose of determining the entitlements of holders of the Scheme Shares to attend and vote at the Court Meeting and the entitlements of the Shareholders to attend and vote at the General Meeting, the register of members of the Company will be closed from Monday, 16 December 2019 to Thursday, 19 December 2019 (both days inclusive) and during such period, no transfer of Shares will be effected. In order to qualify to vote at the Court Meeting and the General Meeting, all transfers accompanied by the relevant share certificates must be lodged with the Share Registrar at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong before 4:30 p.m. on Friday, 13 December 2019.

A **pink** form of proxy for use at the Court Meeting and a **white** form of proxy for use at the General Meeting are enclosed with this Scheme Document. A subsequent purchaser of Shares will need to obtain the relevant proxy form(s) from the transferor if he or she wishes to attend or vote at the Court Meeting and/or the General Meeting.

Whether or not you are able to attend the Court Meeting and/or the General Meeting or any adjournment thereof in person, if you are a holder of the Scheme Shares, you are strongly urged to complete and sign the enclosed **pink** form of proxy in respect of the Court Meeting, and if you are a Shareholder, we strongly urge you to complete and sign the enclosed **white** form of proxy in respect of the General Meeting, in accordance with the instructions printed thereon, and to lodge them with the Share Registrar at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong. **In order to be valid, the pink form of proxy for use at the Court Meeting should be lodged 48 hours before the time appointed for holding the Court Meeting or any adjournment thereof, and the white form of proxy for use at the General Meeting should be lodged 48 hours before the time appointed for holding the General Meeting or any adjournment thereof.** The completion and return of a form of proxy for the Court Meeting and/or the General Meeting will not preclude you from attending and voting in person at the relevant meeting or any adjournment thereof, should you so wish. In the event that you attend and vote at the relevant meeting or any adjournment thereof after having lodged your form(s) of proxy, the returned form(s) of proxy will be deemed to have been revoked.

If you do not appoint a proxy and you do not attend and vote at the Court Meeting and/or the General Meeting, you will still be bound by the outcome of the Court Meeting and/or the General Meeting. You are therefore strongly urged to attend and vote at the Court Meeting and/or the General Meeting in person or by proxy.

Voting at the Court Meeting and the General Meeting will be taken by poll as required under the Listing Rules and the Takeovers Code.

The Company and the Offeror will make an announcement in relation to the results of the Court Meeting and the General Meeting and, if all the resolutions are passed at those meetings, further announcements will be made in relation to, among other things, the results of the hearing of the petition for the sanction of the Scheme by the High Court, the Effective Date and the date of withdrawal of listing of the Shares from the Stock Exchange, in accordance with the requirements of the Takeovers Code and the Listing Rules.

ACTIONS TO BE TAKEN

2. **ACTIONS TO BE TAKEN BY BENEFICIAL OWNERS WHOSE SHARES ARE HELD BY A REGISTERED OWNER OR DEPOSITED IN CCASS**

No person shall be recognised by the Company as holding any Shares on trust.

If you are a Beneficial Owner whose Shares are registered in the name of a nominee, trustee, depositary or any other authorised custodian or third party, you should contact such Registered Owner to give instructions to and/or to make arrangements with such Registered Owner as to the manner in which the Shares beneficially owned by you should be voted at the Court Meeting and/or the General Meeting.

If you are a Beneficial Owner who wishes to attend the Court Meeting and/or the General Meeting personally, you should:

- (a) contact the Registered Owner directly to make the appropriate arrangements with the Registered Owner to enable you to attend and vote at the Court Meeting and/or the General Meeting and, for such purpose, the Registered Owner may appoint you as its proxy; or
- (b) arrange for some or all of the Shares registered in the name of the Registered Owner to be transferred into your own name.

Instructions to and/or arrangements with the Registered Owner should be given or made in advance of the relevant latest time for the lodgement of form(s) of proxy in respect of the Court Meeting and/or the General Meeting, or, as applicable, the latest time for lodging transfers of Shares, in order to provide the Registered Owner with sufficient time to complete his/her/its form(s) of proxy or transfer documents accurately and to submit them by the relevant deadlines.

The appointment of a proxy by the Registered Owner at the Court Meeting and/or the General Meeting shall be in accordance with all relevant provisions in the articles of association of the Company.

In the case of the appointment of a proxy by the Registered Owner, the relevant forms of proxy shall be completed and signed by the Registered Owner and shall be lodged in the manner and no later than the latest time for lodging the relevant forms of proxy as more particularly set out in this Scheme Document.

The completion and return of a form of proxy for the Court Meeting and/or the General Meeting will not preclude the Registered Owner from attending and voting in person at the relevant meeting or any adjournment thereof if the Registered Owner should so wish. In the event that the Registered Owner attends and votes at the relevant meeting or any adjournment thereof after having lodged his/her/its form(s) of proxy, the returned form(s) of proxy will be deemed to have been revoked.

ACTIONS TO BE TAKEN

If you are a Beneficial Owner whose Shares are deposited in CCASS and registered under the name of HKSCC Nominees, you must, unless you are an Investor Participant:

- (a) contact your broker, custodian, nominee or other relevant person who is, or has, in turn, deposited such Shares with, a CCASS participant regarding voting instructions to be given to such persons; or
- (b) arrange for some or all of such Shares to be withdrawn from CCASS and transferred into your own name, if you wish to vote (in person or by proxy) at the Court Meeting and/or the General Meeting.

The procedure for voting in respect of the Scheme by the Investor Participants and the Other CCASS Participants with respect to the Shares registered under the name of HKSCC Nominees shall be in accordance with the “General Rules of CCASS” and the “CCASS Operational Procedures” in effect from time to time.

You should contact your broker, custodian, nominee or other relevant person in advance of the latest time for the lodgement of forms of proxy in respect of the Court Meeting and/or the General Meeting, in order to provide such person with sufficient time to provide HKSCC Nominees with instructions or make arrangements with HKSCC Nominees in relation to the manner in which the Shares should be voted at the Court Meeting and/or the General Meeting.

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

3. EXERCISE YOUR RIGHT TO VOTE

IF YOU ARE A SHAREHOLDER OR A BENEFICIAL OWNER, THE OFFEROR AND THE COMPANY STRONGLY ENCOURAGE YOU TO EXERCISE YOUR RIGHT TO VOTE OR GIVE INSTRUCTIONS TO THE RELEVANT REGISTERED OWNER TO VOTE IN PERSON OR BY PROXY AT THE COURT MEETING AND AT THE GENERAL MEETING.

IF YOU ARE A BENEFICIAL OWNER WHOSE SHARES ARE DEPOSITED IN CCASS, YOU ARE ENCOURAGED TO PROVIDE HKSCC NOMINEES WITH INSTRUCTIONS OR MAKE ARRANGEMENTS WITH HKSCC NOMINEES IN RELATION TO THE MANNER IN WHICH THOSE SHARES SHOULD BE VOTED AT THE COURT MEETING AND/OR THE GENERAL MEETING WITHOUT DELAY AND/OR HAVE THE SHARES WITHDRAWN AND REGISTERED IN YOUR NAME (AS DETAILED ABOVE).

ACTIONS TO BE TAKEN

IF YOU KEEP ANY SHARES IN A SHARE LENDING PROGRAMME, THE OFFEROR AND THE COMPANY URGE YOU TO RECALL ANY OUTSTANDING SHARES ON LOAN TO AVOID MARKET PARTICIPANTS USING BORROWED STOCK TO VOTE.

IF YOU ARE A REGISTERED OWNER HOLDING THE SHARES ON BEHALF OF BENEFICIAL OWNERS, THE OFFEROR AND THE COMPANY WOULD BE GRATEFUL IF YOU WOULD INFORM THE RELEVANT BENEFICIAL OWNERS ABOUT THE IMPORTANCE OF EXERCISING THEIR RIGHT TO VOTE.

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

DEFINITIONS

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

acting in concert	has the meaning ascribed to it in the Takeovers Code, and “persons acting in concert” and “concert parties” shall be construed accordingly
associates	has the meaning ascribed to it in the Takeovers Code
Beneficial Owner	any beneficial owner of the Shares whose Shares are registered in the name of a Registered Owner other than himself or herself
Board	the board of Directors
Business Day	a day on which the Stock Exchange is open for transaction of business
Cancellation Price	the cancellation price of HK\$3.70 per Scheme Share cancelled, payable in cash by the Offeror to the Scheme Shareholders pursuant to the Scheme
CCASS	the Central Clearing and Settlement System established and operated by HKSCC
CCASS Participant	a person admitted to participate in CCASS as a participant, including an Investor Participant
Certain Funds Period	from the date the term loan facility is made available to the Offeror by Oversea-Chinese Banking Corporation Limited until the earliest of: (i) the day which is six (6) months after the date of the loan agreement dated 17 October 2019 between the Offeror and Oversea-Chinese Banking Corporation Limited; (ii) the date on which the Scheme lapses; (iii) the date on which the Scheme is withdrawn; and (iv) the date from which no further payments to the Scheme Shareholders are required under the Scheme
CLSA	CLSA Capital Markets Limited, a company incorporated in Hong Kong with limited liability and licensed under the SFO to carry on Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities, and the exclusive financial adviser to the Offeror in connection with the Proposal

DEFINITIONS

CLSA Group	CLSA and persons controlling, controlled by or under the same control as CLSA
Companies Ordinance	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)
Company or DCH	Dah Chong Hong Holdings Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the main board of the Stock Exchange (stock code: 01828)
Conditions	the conditions of the Proposal as set out in the section headed "5. Conditions of the Proposal" in the Explanatory Statement
Court Meeting	a meeting of the Scheme Shareholders to be convened at the direction of the High Court at 10:30 a.m. on Thursday, 19 December 2019 at Salon 1-5 of JW Marriott Ballroom, Level 3, JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong at which the Scheme will be voted upon, notice of which is set out on pages 105 and 107 of this Scheme Document, or any adjournment thereof
Directors	the directors of the Company
Disinterested Shares	has the meaning ascribed to it in section 674(3)(a) of the Companies Ordinance
Effective Date	the date on which the Scheme becomes effective in accordance with the Companies Ordinance
Executive	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
Explanatory Statement	the explanatory statement in relation to the Scheme, the text of which is set out on pages 62 to 81 of this Scheme Document, issued pursuant to section 671 of the Companies Ordinance

DEFINITIONS

General Meeting	a general meeting of the Company to be held at 10:45 a.m. (or immediately after the conclusion or adjournment of the Court Meeting) on Thursday, 19 December 2019 at Salon 1–5 of JW Marriott Ballroom, Level 3, JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong and any adjournment thereof to be held after the Court Meeting for the purpose of approving, amongst other things, the reduction of the share capital of the Company and implementation of the Scheme
Group	the Company and its subsidiaries
High Court	the High Court of Hong Kong
HK\$	Hong Kong dollars, the lawful currency of Hong Kong
HKSCC	Hong Kong Securities Clearing Company Limited
HKSCC Nominees	HKSCC Nominees Limited
Hong Kong	the Hong Kong Special Administrative Region of the People’s Republic of China
Independent Board Committee	an independent board committee of the Directors comprising Chan Kay Cheung, Chan Hui Dor Lam, Doreen, Woo Chin Wan, Raymond, Zhang Lijun and Cheng Jinglei, all being the Independent Non-executive Directors of the Company
Independent Financial Adviser or Somerley	Somerley Capital Limited, a corporation licensed to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser to the Independent Board Committee
Independent Shareholders	the Shareholders other than the Offeror Concert Parties
Investor Participant	a person admitted to participate in CCASS as an investor participant

DEFINITIONS

ITOCHU	ITOCHU Corporation, a company incorporated under the laws of Japan with limited liability, the shares of which are listed on the Tokyo Stock Exchange (stock code: 8001)
Joint Announcement	the joint announcement dated 20 October 2019 issued by the Offeror and the Company in relation to the Proposal
Last Trading Date	14 October 2019, being the last day on which the Shares were traded on the Stock Exchange prior to the publication of the Joint Announcement
Latest Practicable Date	29 November 2019, being the latest practicable date prior to the date of this Scheme Document for the purpose of ascertaining certain information contained in this Scheme Document
Listing Rules	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
Long Stop Date	means 31 March 2020 or such other date as may be agreed between the Offeror and the Company or, to the extent applicable, as the Executive may consent and the High Court may direct
Meeting Record Date	Thursday, 19 December 2019, or such other date as shall have been announced to the Shareholders, being the record date for the purpose of determining the entitlement of holders of the Scheme Shares to attend and vote at the Court Meeting and the entitlement of the Shareholders to attend and vote at the General Meeting
Nominee	Giant Path Limited, a company incorporated in the British Virgin Islands with limited liability, which is an indirect wholly-owned subsidiary of the Offeror
Offeror or CPL	CITIC Pacific Limited, a company incorporated in the British Virgin Islands with limited liability and a registered non-Hong Kong company under the Companies Ordinance

DEFINITIONS

Offeror Concert Parties	the Offeror and persons acting in concert with the Offeror (including but not limited to (i) the Offeror SPV Entities; (ii) the Offeror group of companies; (iii) the CLSA Group; (iv) CITIC Group Corporation and its subsidiaries (including CITIC Limited); (v) ITOCHU; and (vi) Charoen Pokphand Group Company Limited (for (v) and (vi), they are presumed to be acting in concert with the Offeror in accordance with class 1 of the definition of “acting in concert” in the Takeovers Code))
Offeror SPV Entities	(i) the Offeror; (ii) all direct/indirect wholly-owned subsidiaries of the Offeror holding the Shares, namely Davenmore Limited, Wealth Ease Limited, Ascari Holdings Ltd., Colton Pacific Limited, CITIC Hong Kong (Holdings) Limited, Silver Ray Enterprises Inc., Grogan Inc., Greenlane International Holdings Inc., Chadacre Developments Limited, Cornaldi Enterprises Limited, Corton Enterprises Limited, Dashing Investments Limited, Karaganda Limited and Hainsworth Limited; and (iii) Hero Lion Holdings Limited (an indirect wholly-owned subsidiary of the Offeror) and the Nominee
Other CCASS Participant	a broker, custodian, nominee or other relevant person who is, or has deposited the Shares with, a CCASS participant
Proposal	the proposal for the privatisation of the Company by the Offeror by way of the Scheme
Registered Owner	any person (including without limitation a nominee, trustee, depositary or any other authorised custodian or third party) whose name is entered in the register of members of the Company as a holder of the Shares
Registrar of Companies	the Registrar of Companies appointed under the Companies Ordinance
Relevant Period	the period commencing on 20 April 2019, being the date falling six (6) months prior to the date of the Joint Announcement and ending on the Latest Practicable Date

DEFINITIONS

Scheme	the scheme of arrangement under section 673 of the Companies Ordinance for the implementation of the Proposal as set out on pages 97 to 104 of this Scheme Document, with or subject to any modification thereof or addition thereof or condition approved or imposed by the High Court
Scheme Document	this composite scheme document of the Offeror and the Company containing, among other things, each of the letters, statements, appendices and notices in it
Scheme Record Date	Tuesday, 7 January 2020, or such other date as shall have been announced to the Shareholders, being the record date for the purpose of determining the entitlements of the Scheme Shareholders to the Cancellation Price under the Scheme
Scheme Shareholders	registered holders of the Scheme Shares as at the Scheme Record Date
Scheme Shares	the Shares other than those held by the members of the Offeror SPV Entities
SFC	Securities and Futures Commission of Hong Kong
SFO	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
Shareholders	holders of the Shares
Shares	the ordinary shares of the Company
Share Registrar	Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, being the share registrar of the Company
Stock Exchange	The Stock Exchange of Hong Kong Limited
Takeovers Code	the Hong Kong Code on Takeovers and Mergers
United States or US	United States of America
%	per cent

All references in this Scheme Document to times and dates are references to Hong Kong times and dates, except as otherwise specified.

EXPECTED TIMETABLE

The timetable set out below is indicative only and is subject to change. Any changes to the timetable will be jointly announced by the Offeror and the Company. Unless otherwise specified, all times and dates refer to Hong Kong local times and dates.

Hong Kong time

Latest time for lodging transfers of the Shares
in order to qualify for entitlement to attend and vote
at the Court Meeting and the General Meeting 4:30 p.m. on
Friday, 13 December 2019

Register of members of the Company closed for
determining entitlement to attend and vote
at the Court Meeting and the General Meeting (*Note 1*) Monday, 16 December 2019
to Thursday, 19 December 2019
(both days inclusive)

Latest time for lodging forms of proxy in respect of:

- Court Meeting (*Note 2*) 10:30 a.m. on
Tuesday, 17 December 2019
- General Meeting (*Note 2*) 10:45 a.m. on
Tuesday, 17 December 2019

Meeting Record Date Thursday, 19 December 2019

Court Meeting (*Note 2*) 10:30 a.m. on
Thursday, 19 December 2019

General Meeting (*Note 2*) 10:45 a.m. on
Thursday, 19 December 2019
(or immediately after the conclusion or
adjournment of the Court Meeting)

Announcement of the results of the Court Meeting
and the General Meeting posted on the website
of the Stock Exchange no later than 7:00 p.m. on
Thursday, 19 December 2019

Expected latest time for trading of
the Shares on the Stock Exchange 12:10 p.m. on
Tuesday, 24 December 2019

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

EXPECTED TIMETABLE

Register of members of the Company closed for determining entitlement to qualify under the Scheme (*Note 3*) from Tuesday, 31 December 2019 onwards

High Court hearing of the petition for the sanction of the Scheme (*Note 4*) 10:00 a.m. on Tuesday, 7 January 2020

Announcement of (1) the results of the High Court hearing for the petition for the sanction of the Scheme, (2) the expected Effective Date and (3) the expected date of withdrawal of listing of the Shares on the Stock Exchange posted on the website of the Stock Exchange no later than 7:00 p.m. on Tuesday, 7 January 2020

Scheme Record Date Tuesday, 7 January 2020

Effective Date (*Note 4*) Wednesday, 8 January 2020

Announcement of (1) the Effective Date and (2) the withdrawal of listing of the Shares on the Stock Exchange posted on the website of the Stock Exchange Wednesday, 8 January 2020

Withdrawal of listing of the Shares on the Stock Exchange becomes effective 9:00 a.m. on Friday, 10 January 2020

Cheques for the cash payment under the Proposal to be despatched (*Note 5*) on or before Friday, 17 January 2020

Notes:

1. The register of members of the Company will be closed during such period for the purpose of determining entitlements of holders of the Scheme Shares to attend and vote at the Court Meeting and of the Shareholders to attend and vote at the General Meeting. For the avoidance of doubt, this period of closure is not for determining entitlements under the Scheme.
2. The **pink** form of proxy in respect of the Court Meeting and the **white** form of proxy in respect of the General Meeting should be completed and signed in accordance with the instructions respectively printed thereon and should be lodged with the Share Registrar at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong by the times and dates stated above. The **pink** form of proxy for use at the Court Meeting and the **white** form of proxy for use at the General Meeting must be lodged no later than the time and date stated above in order for them to be valid. The completion and return of a form of proxy for the Court Meeting and/or the General Meeting will not preclude a member from attending and voting in person at the relevant meeting or any adjournment thereof if he/she/it so wishes. In the event that the member attends and votes at the relevant meeting or any adjournment thereof after having lodged his/her/its form of proxy, the returned form of proxy shall be deemed to have been revoked.

EXPECTED TIMETABLE

3. The register of members of the Company will be closed during such period for the purpose of determining the Scheme Shareholders, who are qualified for entitlements under the Scheme.
4. The High Court hearing will be held at the High Court at the High Court Building, 38 Queensway, Hong Kong. The Scheme shall become effective when an office copy of the order of the High Court sanctioning the Scheme (with or without modification) and confirming the reduction of the share capital of the Company involved in the Scheme is registered by the Registrar of Companies under Part 2 of the Companies Ordinance.
5. Cheques for entitlements of the Scheme Shareholders will be despatched by ordinary post in postage pre-paid envelopes addressed to the Scheme Shareholders at their respective addresses as appearing in the register of members of the Company as at the Scheme Record Date or, in the case of joint holders, at the address appearing in the register of members of the Company as at the Scheme Record Date of the joint holder whose name then stands first in the register of members of the Company in respect of the relevant joint holding as soon as possible but in any event within seven (7) Business Days following the Effective Date. Cheques shall be posted at the risk of the addressees and none of the Offeror, the Company, CLSA, the Independent Financial Adviser and the Share Registrar and their respective directors, employees, officers, agents, advisers, associates and affiliates and any other persons involved in the Proposal shall be responsible for any loss or delay in transmission.

LETTER FROM THE BOARD



大昌行集團有限公司
DAH CHONG HONG HOLDINGS LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 01828)

Executive Directors:

Lai Ni Hium
Lee Tak Wah

Registered Office:

8th Floor, DCH Building
20 Kai Cheung Road
Kowloon Bay
Hong Kong

Non-Executive Directors:

Zeng Chen (Chairman)
Yin Ke
Kwok Man Leung
Fei Yiping

Independent Non-Executive Directors:

Chan Kay Cheung
Chan Hui Dor Lam, Doreen
Woo Chin Wan, Raymond
Zhang Lijun
Cheng Jinglei

2 December 2019

To the Shareholders

Dear Sir or Madam,

**(1) PROPOSAL FOR THE PRIVATISATION OF
DAH CHONG HONG HOLDINGS LIMITED
BY CITIC PACIFIC LIMITED BY WAY OF
A SCHEME OF ARRANGEMENT
UNDER SECTION 673 OF THE COMPANIES ORDINANCE
AND
(2) PROPOSED WITHDRAWAL OF LISTING OF
DAH CHONG HONG HOLDINGS LIMITED**

INTRODUCTION

On 20 October 2019, the Offeror and the Company jointly announced that on 14 October 2019, the Offeror requested the Board to put forward to holders of the Scheme Shares the Proposal, which, if implemented, would result in the Company becoming wholly owned by the Offeror SPV Entities and the withdrawal of listing of the Shares from the Stock Exchange.

LETTER FROM THE BOARD

As at the Latest Practicable Date, the Offeror SPV Entities beneficially owned, controlled or had direction over 1,074,477,918 Shares, representing approximately 56.81% of the issued Shares. The Proposal will be implemented by way of a scheme of arrangement under section 673 of the Companies Ordinance involving the cancellation of the Scheme Shares and, in consideration therefor, the payment to the Scheme Shareholders of the Cancellation Price in cash for each Scheme Share cancelled.

If the Proposal is approved and implemented:

- (a) all the Scheme Shares will be cancelled on the Effective Date in exchange for the payment by the Offeror to each Scheme Shareholder of the Cancellation Price in cash for each Scheme Share cancelled;
- (b) the share capital of the Company will, on the Effective Date, be reduced by cancelling and extinguishing the Scheme Shares. Upon such reduction, the share capital of the Company will be increased to its former amount by the issue to the Nominee, credited as fully paid, of the same number of the Shares as the number of Scheme Shares cancelled, and the credit arising in the Company's books of account as a result of the capital reduction will be applied in paying up in full the new Shares so allotted and issued to the Nominee; and
- (c) the withdrawal of listing of the Shares on the Stock Exchange is expected to take place with effect from 9:00 a.m. on Friday, 10 January 2020.

The purpose of this Scheme Document is to provide you with further information regarding the Proposal and, in particular, the Scheme, and to give you notice of the Court Meeting and of the General Meeting (together with proxy forms in relation thereto). Your attention is also drawn to (i) the letter from the Independent Board Committee set out on pages 23 to 24 of this Scheme Document; (ii) the letter from the Independent Financial Adviser set out on pages 25 to 61 of this Scheme Document; (iii) the Explanatory Statement set out on pages 62 to 81 of this Scheme Document; and (iv) the terms of the Scheme set out on pages 97 to 104 of this Scheme Document.

THE PROPOSAL

Subject to the Conditions described in the section headed "5. Conditions of the Proposal" in the Explanatory Statement on pages 64 to 67 of this Scheme Document being fulfilled or waived, as applicable, the proposed privatisation of the Company will be implemented by way of the Scheme between the Company and the Scheme Shareholders.

THE SCHEME

Subject to the Scheme becoming effective, the Scheme Shareholders will receive from the Offeror as Cancellation Price:

HK\$3.70 for every Scheme Share cancelled

The Offeror has advised that the Cancellation Price will not be increased and the Offeror does not reserve the right to do so.

LETTER FROM THE BOARD

The Cancellation Price of HK\$3.70 per Scheme Share represents:

- (a) a premium of approximately 37.55% over the closing price of HK\$2.69 per Share as quoted on the Stock Exchange on the Last Trading Date;
- (b) a premium of approximately 37.55% over the average closing price of approximately HK\$2.69 per Share as quoted on the Stock Exchange for the 5 trading days up to and including the Last Trading Date;
- (c) a premium of approximately 54.81% over the average closing price of approximately HK\$2.39 per Share as quoted on the Stock Exchange for the 30 trading days up to and including the Last Trading Date;
- (d) a premium of approximately 56.12% over the average closing price of approximately HK\$2.37 per Share as quoted on the Stock Exchange for the 60 trading days up to and including the Last Trading Date;
- (e) a premium of approximately 54.17% over the average closing price of approximately HK\$2.40 per Share as quoted on the Stock Exchange for the 90 trading days up to and including the Last Trading Date;
- (f) a premium of approximately 41.22% over the average closing price of approximately HK\$2.62 per Share as quoted on the Stock Exchange for the 180 trading days up to and including the Last Trading Date;
- (g) a discount of approximately 32.11% over the audited consolidated net asset value attributable to the Shareholders per Share of approximately HK\$5.45 as at 31 December 2018;
- (h) a discount of approximately 28.16% over the unaudited consolidated net asset value attributable to the Shareholders per Share of HK\$5.15 as at 30 June 2019; and
- (i) a premium of approximately 3.06% over the closing price of HK\$3.59 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

The Cancellation Price has been determined after taking into account the recently traded prices of the Shares before the publication of the Joint Announcement and publicly available financial information of the Company, and with reference to pricing premium for privatisation transactions in Hong Kong for the past 18 months.

Assuming that the Scheme becomes effective on Wednesday, 8 January 2020, cheques for entitlements under the Scheme will be despatched as soon as possible but in any event within seven (7) Business Days following the Effective Date and accordingly, the cheques are expected to be despatched on or before Friday, 17 January 2020. All such cheques will be posted at the risk of the persons entitled thereto and none of the Offeror, the Company, CLSA, the Independent Financial Adviser and the Share Registrar and their respective directors, employees, officers, agents, advisers, associates and affiliates and any other persons involved in the Proposal will be responsible for any loss or delay in transmission.

LETTER FROM THE BOARD

TOTAL CONSIDERATION AND FINANCIAL RESOURCES

On the basis of the Cancellation Price of HK\$3.70 per Scheme Share and 816,769,302 Scheme Shares in issue as at the Latest Practicable Date, the amount of cash payable to the Scheme Shareholders under the Proposal would be approximately HK\$3,022,046,417.

The Offeror intends to finance the cash required for the Proposal through a term loan facility made available to the Offeror by Oversea-Chinese Banking Corporation Limited for the Certain Funds Period. CLSA is satisfied that sufficient financial resources are available to the Offeror for satisfying its obligations in respect of the full implementation of the Proposal.

CONDITIONS OF THE PROPOSAL

The Proposal is subject to the satisfaction or waiver, as applicable, of the Conditions described in the section headed "5. Conditions of the Proposal" in the Explanatory Statement on pages 64 to 67 of this Scheme Document.

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

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

If approved, the Scheme will be binding on all of the Scheme Shareholders, irrespective of whether or not they attended or voted at the Court Meeting or the General Meeting.

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

LETTER FROM THE BOARD

IRREVOCABLE UNDERTAKINGS

As at the Latest Practicable Date, none of the Offeror Concert Parties had received any irrevocable commitment to vote for or against the Proposal.

SHAREHOLDING STRUCTURE OF THE COMPANY

As at the Latest Practicable Date, the Company had 1,891,247,220 Shares in issue.

The Offeror confirmed that, as at the Latest Practicable Date:

- (a) the members of the Offeror SPV Entities beneficially owned, controlled or had direction over 1,074,477,918 Shares, representing approximately 56.81% of the issued Shares;
- (b) the Offeror Concert Parties beneficially owned, controlled or had direction over 1,100,150,318 Shares (representing approximately 58.17% of the issued Shares), of which (i) 1,074,477,918 Shares were beneficially owned, controlled or directed by the Offeror SPV Entities (representing approximately 56.81% of the issued Shares); and (ii) 25,672,400 Shares were beneficially owned, controlled or directed by the Offeror Concert Parties other than the Offeror SPV Entities (representing approximately 1.36% of the issued Shares);
- (c) the Independent Shareholders beneficially owned, controlled or had direction over 791,096,902 Shares, representing approximately 41.83% of the issued Shares;
- (d) the Scheme Shareholders (being Shareholders other than the Offeror SPV Entities) beneficially owned, controlled or had direction over 816,769,302 Shares, representing approximately 43.19% of the issued Shares;
- (e) there were no convertible securities, warrants or options in respect of the Shares held, controlled or directed by the Offeror Concert Parties;
- (f) none of the Offeror Concert Parties had entered into any outstanding derivative in respect of the securities in the Company;
- (g) none of the Offeror Concert Parties had borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company;
- (h) there was no understanding, arrangement or agreement which constituted special deal (as defined under Rule 25 of the Takeovers Code) between the Offeror and the Offeror Concert Parties on one hand and the Scheme Shareholders and persons acting in concert with them on the other hand; and
- (i) other than the Cancellation Price for each Scheme Share cancelled payable under the Scheme, the Offeror or the Offeror Concert Parties had not paid and would not pay any other consideration, compensations or benefits in whatever form to the Scheme Shareholders or persons acting in concert with them in relation to the Scheme Shares.

LETTER FROM THE BOARD

A table setting out the shareholding structure of the Company as at the Latest Practicable Date and immediately upon the Scheme becoming effective (assuming no new Shares will be issued prior thereto) is to be found in the section headed "7. Shareholding Structure of the Company and Effect of the Proposal and the Scheme" in the Explanatory Statement on pages 67 to 69 of this Scheme Document.

For the avoidance of doubt, the Scheme Shares comprise the Shares beneficially owned, controlled or directed by (i) the Offeror Concert Parties other than the members of the Offeror SPV Entities; and (ii) the Independent Shareholders.

As at the Latest Practicable Date, the Scheme Shares comprised 816,769,302 Shares, representing approximately 43.19% of the issued Shares.

As at the Latest Practicable Date, the Company had no outstanding options, warrants, derivatives or securities convertible into Shares and no relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) other than its issued Shares of 1,891,247,220 Shares.

As at the Latest Practicable Date, save as set out below, no Director held any Shares:

- (a) Lai Ni Hium, an executive Director, beneficially owned, controlled or had direction over 768,529 Shares, representing approximately 0.041% of the issued Shares; and
- (b) Lee Tak Wah, an executive Director, beneficially owned, controlled or had direction over 100,000 Shares, representing approximately 0.005% of the issued Shares.

All Shareholders will be entitled to vote on the special resolution(s) to be proposed at the General Meeting to approve and give effect to the reduction of capital and the implementation of the Scheme. The Offeror SPV Entities have indicated that, if the Scheme is approved at the Court Meeting, the Offeror SPV Entities will vote in favour of the special resolution(s) to be proposed at the General Meeting to approve and give effect to the reduction of share capital and implementation of the Scheme. Upon the Scheme becoming effective, the Scheme Shares will be cancelled and the Offeror SPV Entities will hold 100% of the issued Shares.

REASONS FOR AND BENEFITS OF THE PROPOSAL

You are urged to read carefully the section headed "11. Reasons for and benefits of the Proposal" in the Explanatory Statement on page 71 of this Scheme Document.

THE OFFEROR'S INTENTIONS IN RELATION TO THE GROUP

You are urged to read carefully the section headed "12. The Offeror's intentions in relation to the Group" in the Explanatory Statement on page 72 of this Scheme Document.

The Board has noted the intentions of the Offeror in respect of the Company and the employees of the Group, as disclosed in the section headed "12. The Offeror's intentions in relation to the Group" in the Explanatory Statement on page 72 of this Scheme Document.

LETTER FROM THE BOARD

EXCLUSIVE FINANCIAL ADVISER TO THE OFFEROR

The Offeror has appointed CLSA as its exclusive financial adviser in connection with the Proposal.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising Chan Kay Cheung, Chan Hui Dor Lam, Doreen, Woo Chin Wan, Raymond, Zhang Lijun and Cheng Jinglei, all being the independent non-executive Directors, has been constituted to advise the Independent Shareholders as to whether the Proposal is or is not fair and reasonable, and as to voting in respect of the Scheme at the Court Meeting and the Proposal at the General Meeting. The non-executive Directors (namely Zeng Chen, Kwok Man Leung, Fei Yiping and Yin Ke) are not considered to be independent for the purpose of making a recommendation to the Independent Shareholders as they are also directors of the Offeror, and for the case of Yin Ke, he was a director of the Offeror until 1 October 2019, and are therefore not included as members of the Independent Board Committee.

The full text of the letter from the Independent Board Committee is set out on pages 23 to 24 of this Scheme Document.

INDEPENDENT FINANCIAL ADVISER

The Company has, with the approval of the Independent Board Committee, appointed Somerley as the Independent Financial Adviser to advise the Independent Board Committee in connection with the Proposal.

The full text of the letter from the Independent Financial Adviser is set out on pages 25 to 61 of this Scheme Document.

INFORMATION ABOUT THE OFFEROR AND THE COMPANY

Your attention is drawn to Appendix I headed "Financial Information Relating to the Group" on pages 82 to 87 of this Scheme Document, and the sections headed "14. Information about the Offeror" and "15. Information about the Company" in the Explanatory Statement on pages 73 to 74 of this Scheme Document.

OVERSEAS SHAREHOLDERS

If you are an overseas holder of the Scheme Shares, your attention is drawn to the section headed "18. Overseas Shareholders" in the Explanatory Statement on pages 75 to 76 of this Scheme Document.

LETTER FROM THE BOARD

COURT MEETING AND GENERAL MEETING

For the purpose of exercising your right to vote at the Court Meeting and the General Meeting, you are requested to read carefully the section headed “20. Court Meeting and General Meeting” in the Explanatory Statement on page 77 of this Scheme Document, the section headed “21. Actions to be taken” on pages 78 to 80 of this Scheme Document, and the notices of the Court Meeting and the General Meeting on pages 105 to 107 and 108 to 110 respectively of this Scheme Document.

ACTIONS TO BE TAKEN

The actions which you are required to take in relation to the Proposal are set out under the section headed “Actions to be taken” on pages 1 to 4 and the section headed “21. Actions to be taken” in the Explanatory Statement on pages 78 to 80 of this Scheme Document.

RECOMMENDATION

The Independent Financial Adviser has advised the Independent Board Committee that it considers the terms of the Proposal are fair and reasonable so far as the Independent Shareholders are concerned, and accordingly, advises the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the relevant resolution(s) to be proposed at the Court Meeting and the General Meeting to approve and implement the Proposal.

The Independent Board Committee, having considered the terms of the Proposal, and having taken into account the advice of the Independent Financial Adviser, considers that the terms of the Proposal are fair and reasonable so far as the Independent Shareholders are concerned and recommends the Independent Shareholders to vote in favour of the relevant resolution(s) to be proposed at the Court Meeting and the General Meeting to approve and implement the Proposal.

Your attention is drawn to the recommendation of the Independent Financial Adviser to the Independent Board Committee, in respect of the Proposal as set out in the “Letter from the Independent Financial Adviser” on pages 25 to 61 of this Scheme Document. Your attention is also drawn to the recommendation of the Independent Board Committee in respect of the Proposal as set out in the “Letter from the Independent Board Committee” on pages 23 to 24 of this Scheme Document.

SHARE CERTIFICATES, DEALINGS, LISTING, REGISTRATION AND PAYMENT

Upon the Scheme becoming effective, all Scheme Shares will be cancelled and the share certificates for the Scheme Shares will thereafter cease to have effect as documents or evidence of title. In that case, the Company does not intend to maintain its listing on the Stock Exchange and will make an application for the listing of the Shares to be withdrawn from the Stock Exchange in accordance with Rule 6.15(2) of the Listing Rules, with effect from 9:00 a.m. on Friday, 10 January 2020. Holders of the Scheme Shares will be notified by way of an announcement of the exact dates of the last day for dealing in the Shares and the day on which the Scheme and the withdrawal of listing of the Shares on the Stock Exchange will become effective.

LETTER FROM THE BOARD

Subject to the requirements of the Takeovers Code, the Proposal will lapse if any of the Conditions described in the section headed “5. Conditions of the Proposal” in the Explanatory Statement on pages 64 to 67 of this Scheme Document has not been fulfilled or waived, as applicable, on or before the Long Stop Date.

If the Scheme is withdrawn or is not approved at the Court Meeting or is not sanctioned by the High Court or does not become effective or the Proposal otherwise lapses, (a) the listing of the Shares on the Stock Exchange will not be withdrawn; (b) as there will be no cancellation of the Scheme Shares, the Company will be able to satisfy the public float requirements under Rule 8.08 of the Listing Rules; and (c) the Company will publish an announcement to update the Shareholders in respect of the status of the Proposal.

Your attention is drawn to the sections entitled “16. Withdrawal of listing of the Shares” and “17. Registration and Payment” in the Explanatory Statement set out on page 74 and pages 74 to 75, respectively, of this Scheme Document.

TAXATION, EFFECTS AND LIABILITIES

It is emphasised that none of the Offeror, the Company, CLSA, the Independent Financial Adviser and the Share Registrar and their respective directors, employees, officers, agents, advisers, associates and affiliates and any other persons involved in the Proposal accept responsibility for any tax or other effects on, or liabilities of, any person or persons as a result of their approval or rejection, or the implementation, of the Proposal. Accordingly, you are urged to read the section entitled “19. Taxation and Independent Advice” in the Explanatory Statement set out on page 76 of this Scheme Document and 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 an appropriately qualified professional adviser.

FURTHER INFORMATION

You are urged to read carefully the letters from the Independent Board Committee and from the Independent Financial Adviser, as set out on pages 23 to 24, and pages 25 to 61 respectively of this Scheme Document, the Explanatory Statement as set out on pages 62 to 81 of this Scheme Document, the appendices to this Scheme Document, the terms of the Scheme as set out on pages 97 to 104 of this Scheme Document, the notice of the Court Meeting as set out on pages 105 to 107 of this Scheme Document and the notice of the General Meeting as set out on pages 108 to 110 of this Scheme Document. In addition, a **pink** form of proxy for the Court Meeting and a **white** form of proxy for the General Meeting are enclosed with this Scheme Document.

By order of the Board of
Dah Chong Hong Holdings Limited
Lai Ni Hium
Executive Director and Chief Executive Officer

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



大昌行集團有限公司
DAH CHONG HONG HOLDINGS LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 01828)

2 December 2019

To the Independent Shareholders

Dear Sir or Madam,

**(1) PROPOSAL FOR THE PRIVATISATION OF
DAH CHONG HONG HOLDINGS LIMITED
BY CITIC PACIFIC LIMITED BY WAY OF
A SCHEME OF ARRANGEMENT
UNDER SECTION 673 OF THE COMPANIES ORDINANCE
AND
(2) PROPOSED WITHDRAWAL OF LISTING OF
DAH CHONG HONG HOLDINGS LIMITED**

INTRODUCTION

We refer to the document dated 2 December 2019 jointly issued by the Offeror and the Company in relation to the Proposal (the “**Scheme Document**”), of which this letter forms part. Terms defined in the Scheme Document shall have the same meanings in this letter unless the context otherwise requires.

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

Somerley, the Independent Financial Adviser, has been appointed with our approval, to advise us in connection with the Proposal. The details of its advice and the principal factors taken into consideration in arriving at its recommendations are set out in the “Letter from the Independent Financial Adviser” as set out on pages 25 to 61 of this Scheme Document.

In the “Letter from the Independent Financial Adviser” as set out on pages 25 to 61 of this Scheme Document, the Independent Financial Adviser states that it considers the terms of the Proposal are fair and reasonable so far as the Independent Shareholders are concerned, and

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

advises the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the relevant resolution(s) to be proposed at the Court Meeting and the General Meeting to approve and implement the Proposal.

RECOMMENDATION

The Independent Board Committee, having considered the terms of the Proposal, and having taken into account the opinion of the Independent Financial Adviser, and in particular the factors, reasons and recommendations set out in its letter, considers that the terms of the Proposal are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the relevant resolution(s) to be proposed at the Court Meeting and the General Meeting to approve and implement the Proposal.

The Independent Board Committee draws the attention of the Independent Shareholders to (i) the “Letter from the Board” set out on pages 14 to 22 of this Scheme Document; (ii) the “Letter from the Independent Financial Adviser” set out on pages 25 to 61 of this Scheme Document, which sets out the factors and reasons taken into account in arriving at its recommendation to the Independent Board Committee; and (iii) the Explanatory Statement set out on pages 62 to 81 of this Scheme Document.

Yours faithfully,
The Independent Board Committee

Chan Kay Cheung
Independent
Non-Executive Director

Chan Hui Dor Lam, Doreen
Independent
Non-Executive Director

Woo Chin Wan, Raymond
Independent
Non-Executive Director

Zhang Lijun
Independent
Non-Executive Director

Cheng Jinglei
Independent
Non-Executive Director

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the text of a letter of advice from Somerley to the Independent Board Committee, which has been prepared for the purpose of inclusion in this Scheme Document.



SOMERLEY CAPITAL LIMITED

20th Floor
China Building
29 Queen's Road Central
Hong Kong

2 December 2019

To: *The Independent Board Committee of Dah Chong Hong Holdings Limited*

Dear Sirs,

**(1) PROPOSAL FOR THE PRIVATISATION OF
DAH CHONG HONG HOLDINGS LIMITED
BY CITIC PACIFIC LIMITED BY WAY OF
A SCHEME OF ARRANGEMENT
UNDER SECTION 673 OF THE COMPANIES ORDINANCE
AND
(2) PROPOSED WITHDRAWAL OF LISTING OF
DAH CHONG HONG HOLDINGS LIMITED**

I. INTRODUCTION

We refer to our appointment to advise the Independent Board Committee in connection with the Proposal. Details of the Proposal are contained in the Scheme Document dated 2 December 2019, of which this letter forms a part. Terms used in this letter shall have the same meanings as those defined in the Scheme Document unless the context otherwise requires.

On 20 October 2019, as disclosed in the Joint Announcement, the Offeror and the Company jointly announced that the Offeror requested the Board to put forward the Proposal to the Scheme Shareholders for the privatisation of the Company by way of a scheme of arrangement under Section 673 of the Companies Ordinance involving the cancellation of the Scheme Shares and, in consideration therefor, the payment to the Scheme Shareholders of the Cancellation Shares in cash for each Scheme Share.

Under the Scheme, if the Proposal is approved and implemented, the Scheme Shares will be cancelled and, in consideration therefor, each Scheme Shareholder will be entitled to receive the Cancellation Price of HK\$3.70 in cash for each Scheme Share cancelled.

The Independent Board Committee, comprising Mr. Chan Kay Cheung, Mrs. Chan Hui Dor Lam, Doreen, Mr. Woo Chin Wan, Raymond, Ms. Zhang Lijun and Mr. Cheng Jinglei (each being an independent non-executive Director), has been established to make a recommendation to Scheme Shareholders as to whether the Proposal is, or is not, fair and reasonable so far as the

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Scheme Shareholders are concerned and as to voting on the Scheme. The non-executive Directors (namely Mr. Zeng Chen, Mr. Kwok Man Leung, Mr. Fei Yiping and Mr. Yin Ke) are not considered to be independent for the purpose of making a recommendation to the Scheme Shareholders as they are also directors of the Offeror, and in the case of Mr. Yin Ke, a director of the Offeror until 1 October 2019, and are therefore not included as members of the Independent Board Committee. The Independent Board Committee has approved our appointment as the Independent Financial Adviser to advise them in this regard.

During the past two years, Somerley has acted as (i) the independent financial adviser to the independent board committee and independent shareholders of CITIC Securities Company Limited's (Hong Kong H Shares stock code: 6030; Shanghai A Shares stock code: 600030, a company owned as to 16.5% (the aggregate of H Shares and A Shares) by CITIC Limited), continuing connected transactions relating to securities and financial products as announced on 13 November 2019; and (ii) financial adviser to C.P. Holding (BVI) Investment Company Limited ("**C.P. Investment**") relating to the privatisation of C.P. Lotus Corporation (stock code: 121) as announced on 18 June 2019. C.P. Investment is an indirect wholly-owned subsidiary of Charoen Pokphand Group Company Limited, which, in turn holds a 10% effective interests in CITIC Limited (stock code: 267, the holding company of the Offeror). For the above engagement, Somerley receives a fixed normal advisory fee from each of CITIC Securities Company Limited and C.P. Investment.

Save as disclosed above, 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, considered ourselves eligible to give independent advice on the Proposal. Save as disclosed above, apart from normal professional fees 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.

In formulating our advice and recommendation, we have relied on the information and facts supplied, and the opinions expressed, by the Directors, which we have assumed to be true, accurate and complete in all material respects at the Latest Practicable Date. We have also assumed that all representations contained or referred to in the Scheme Document were true, accurate and complete at the time they were made and remain so at the Latest Practicable Date. The Independent Shareholders will be informed of any material change as soon as possible up to the Effective Date. We have reviewed, among other things, the Joint Announcement, the annual report of the Company for the financial years ended 31 December 2017 and 2018 and the interim report of the Company for the financial period ended 30 June 2019. We have also discussed with the Directors the "Material Change Statement" and the basis on which it is made, as set out in paragraph 4 of Appendix I to the Scheme Document. We have sought and received confirmation from the Directors that no material fact has been omitted from the information supplied and opinions expressed by them. We consider that the information we have received is sufficient for us to reach our opinion and advice as set out in this letter. We have no reason to doubt the truth and accuracy of the information provided to us or to believe that any material fact has been omitted or withheld. We have not, however, conducted any independent investigation into the businesses and affairs of the Group, nor have we carried out any independent verification on the information supplied.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

II. TERMS OF THE PROPOSAL

Under the Scheme, if the Proposal is approved and implemented, the Scheme Shares will be cancelled and, in consideration therefor, each Scheme Shareholder will be entitled to receive the Cancellation Price of HK\$3.70 in cash for each Scheme Share cancelled.

III. CONDITIONS OF THE PROPOSAL

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

- (a) the approval of the Scheme at the Court Meeting (by way of a poll) by holders of the Scheme Shares representing at least 75% of the voting rights of such holders present and voting, in person or by proxy, at the Court Meeting, and the votes cast (by way of poll) against the Scheme at the Court Meeting not exceeding 10% of the total voting rights attached to all Disinterested Shares, provided that:
 - (i) the Scheme is approved (by way of poll) by at least 75% of the votes attaching to the Scheme Shares held by the Independent Shareholders that are cast either in person or by proxy at the Court Meeting; and
 - (ii) the number of votes cast (by way of poll) against the resolution to approve the Scheme at the Court Meeting is not more than 10% of the votes attaching to all the Scheme Shares held by the Independent Shareholders; and
- (b) the passing of a special resolution(s) by a majority of at least 75% of the votes cast by the Shareholders present and voting in person or by proxy at the General Meeting (and otherwise in accordance with the procedural requirements of section 564 of the Companies Ordinance) to approve and give effect to the Scheme, including the approval of the reduction of the share capital of the Company by cancelling and extinguishing the Scheme Shares and the issue to the Nominee of such number of new Shares as is equal to the number of the Scheme Shares cancelled.

Further details of the Conditions are set out in the section headed "5. Conditions of the Proposal" in the Explanatory Statement in the Scheme Document. As at the Latest Practicable Date, none of the Conditions had been fulfilled or waived.

All of the above Conditions will have to be fulfilled or waived, as applicable, on or before the 31 March 2020, failing of which the Proposal will lapse.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

IV. PRINCIPAL FACTORS AND REASONS CONSIDERED

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

1. Background information of the Group

The Group is an integrated motor and consumer products distribution company operating in Asia with an extensive logistics network.

Set out below is the background information of the motor business and the consumer products business of the Group:

(a) Motor business

In the motor business segment, DCH is a dealer and distributor of motor vehicles, representing more than 20 automotive brands with a presence in mainland China, Hong Kong, Macao, Singapore, Taiwan and Myanmar. The motor business also operates supporting services including independent service outlets, vehicle parts trading, used car sales, motor leasing, auto finance and insurance agency, engineering projects, aviation support operations and the sales of luxury yachts.

In mainland China, the Group operates over 100 4S shops and showrooms for a diverse range of motor brands with supporting services including motor leasing, auto finance and insurance agency and vehicle part sales.

In Hong Kong and Macao, DCH is a well-established dealer and distributor for passenger and commercial vehicles with motor related business including motor leasing, used car trading, service outlets, vehicle parts trading, auto insurance agency, aviation services, engineering projects and the sales of luxury yachts.

In addition, DCH operates commercial vehicle distribution and aftersales services in Taiwan, Singapore and Myanmar, supported by a semi-knocked down facility in Taiwan and auto leasing in Singapore.

(b) Consumer products business

In the consumer products segment, DCH distributes over 1,000 brands in a diverse range of product categories including food and fast moving consumer goods ("FMCG"), healthcare and electrical products, supported by comprehensive logistics services. The business extends across brand development, manufacturing, commodity trading, agency distribution, logistics, retail and aftersales services with operations in mainland China, Hong Kong, Macao, Taiwan, Japan, Singapore, Thailand, Malaysia, Indonesia, the Philippines and Brunei. The consumer products segment comprises four business units, namely (i) food and FMCG; (ii) healthcare distribution; (iii) electrical products distribution; and (iv) logistics. Amongst the

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four business units, food and FMCG is the largest and accounted for 72.3% of the total revenue of the consumer products business in 2018.

In food and FMCG business in Hong Kong and Macao, DCH engages in agency distribution, sourcing and trading, food processing, own brand development and food retailing with more than 50 grocery outlets under the “Food Mart” and “Food Mart Deluxe” banners. In mainland China, DCH operates a consumer products distribution and trading network that covers more than 30 major cities and regions, including Beijing, Shanghai, Guangzhou, Tianjin, Wuhan and Chengdu as well as food processing facilities. In addition, DCH distributes food and FMCG products in Singapore, Taiwan, Thailand, Malaysia, Indonesia, Brunei, Japan and the Philippines and operates a contract manufacturing facility in Malaysia that produces food, beverages and healthcare products for Asian markets.

In the healthcare distribution business, DCH offers comprehensive supply chain solutions for life science companies and healthcare providers across Asia. Product coverage includes pharmaceuticals, over-the-counter medicines, medical devices, personal care, nutrition and hospital consumables.

In the electrical products distribution business, DCH has operations in mainland China, Hong Kong and Macao where it distributes, retails and provides aftersales services for a wide range of multinational brands of electrical, audio-visual, lifestyle products and home appliances.

In the logistics business, DCH operates distribution centres and in-house fleets, providing comprehensive supply chain solutions across mainland China, Hong Kong and Macao to both internal and external customers including transportation, cold-chain, warehousing and value-added services.

Comments

The Group’s business mix is, in our view, unique of its type, and that we have not been able to find another Hong Kong listed company operating in the similar range of businesses. For this reason, it is difficult to classify a particular sector to which the Group belongs.

2. Reasons for and benefits of the Proposal

DCH’s business as a distributor of motor and consumer products has been challenged on a number of fronts including intensified competition and a more sophisticated and diversified landscape. These challenges highlight structural and operational deficiencies in DCH’s existing business model.

For DCH to deliver long-term growth and remain competitive, re-engineering of its businesses is crucial. This will require significant investment over a number of years. Given the Shares’ trading discount to the consolidated net asset value of the Company since June 2015, the listed status of DCH no longer offers a viable source of funding to develop DCH’s businesses.

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The implementation of the Proposal will enable CPL to provide the necessary financing and operational resource to re-engineer DCH's businesses. The process will take time to execute, carry potential execution risks and may incur significant costs.

All of these could cause volatility to DCH's financial and operational position. In addition, the performance of its Shares could be disadvantaged in a volatile market before the long-term benefits of the re-engineering are realised.

The liquidity of the Shares has been low over a prolonged period, which is approximately 0.07% of the issued Shares for the last 12 months up to and including the Last Trading Date, with an average daily trading volume of approximately 1.40 million shares per day. This low trading volume could make it difficult for the Scheme Shareholders to execute on-market disposals within any given timeframe outside of the Proposal. CPL therefore considers that the Proposal offers the Scheme Shareholders an opportunity to realise their investment in DCH at an attractive exit price, which is a significant premium over the prevailing share price.

Comments

As advised by the management of the Group, following a prolonged period of declining profit attributable to Shareholders, the Company began to initiate various efforts aimed at strengthening fundamentals and improving business performance in 2016. These efforts included efficiency enhancements, cost reductions as well as IT system upgrades across the businesses of the Group. In the motor business, the Company enhanced operational capabilities and expanded its dealership network in mainland China. In the consumer products business, the Company acquired LF Distribution Holding Limited ("LF Asia") in June 2016 and later initiated wide-ranging restructuring in the mainland China food and FMCG business.

While these improvement efforts have yielded varying results, the competitive environment has continued to intensify. It is in our view that the effectiveness of these business enhancements has been limited in light of the rapidly evolving and highly competitive operating environment. This is further discussed in the sections below.

The Offeror has indicated that it will undertake a substantial re-engineering of the Group's businesses should the Company be privatised. These efforts would be larger in scale and require significant investment over a number of years. In this regard, we have discussed with the management of the Group and understand that (i) in order to counter the cutting out of the middlemen or removal of intermediaries from supply chain (which is known as "disintermediation") of well established brands, the Group needs to explore business opportunities vertically and horizontally in its consumer products business and develop its own brands, which may take time and require substantial capital investment; (ii) the increasing popularity of and government support for electric vehicles may shift demand away from leading motor brands currently distributed by DCH as well as impact aftersales services, an important profit contributor in the existing 4S shop business

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model; (iii) the rise of driverless vehicles may impact vehicle ownership preferences, affecting new vehicle sales as well as related businesses including used car sales and motor leasing; and (iv) the continued proliferation of e-commerce will increasingly impact sales to traditional distribution channels and prompt the company to increase online distribution and service availability across business segments to remain competitive. As such, both the motor business and consumer products business are on the verge of transformation and require the adoption of new business models which require significant investment to overcome challenges.

3. Analysis of the financial information of the Group

(a) *Income statement*

Set out below are the summarised consolidated income statements of the Company and segment results for (i) each of the three years ended 31 December 2018 and (ii) the six months ended 30 June 2018 and 2019 as extracted from the annual reports of the Company for the year ended 31 December 2017 and 2018 and interim report of the Company for the six months ended 30 June 2019.

TABLE A: SUMMARISED CONSOLIDATED INCOME STATEMENTS OF THE COMPANY

	For the six months		For the year ended 31 December		
	ended 30 June		2018	2017	2016
	2019	2018	2018	2017	2016
	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
	(Unaudited)	(Unaudited)			
Revenue	23,821	24,474	50,878	51,238	46,462
Net gain on disposal of subsidiaries, associates and properties and remeasurement of an asset held for sale	3	2	429	80	526
Profit from operations	621	618	1,542	1,450	1,068
Net profit attributable to the Shareholders	188	275	820	802	511
Earnings per Share (HK\$ cents)	9.97	14.89	44.10	43.71	27.89
Dividend per Share (HK\$ cents)	4.23	5.05	17.43	16.95	8.44

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(i) *Revenue*

Set out below is a summary of the Group's segment revenue (from external customers) for (i) each of the three years ended 31 December 2018; and (ii) the six months ended 30 June 2018 and 2019:

TABLE B: SEGMENTAL REVENUE OF THE GROUP

	Motor business			Consumer products business		
	Non-mainland China market HK\$' million	Mainland China market HK\$' million	Sub-total HK\$' million	Non-mainland China market HK\$' million	Mainland China market HK\$' million	Sub-total HK\$' million
For the six months ended 30 June (unaudited)						
2019	3,399	14,843	18,242	4,366	1,182	5,548
<i>% of total revenue</i>	14.3%	62.3%	76.6%	18.3%	5.0%	23.3%
2018	3,542	14,628	18,170	4,529	1,751	6,280
<i>% of total revenue</i>	14.5%	59.7%	74.2%	18.5%	7.2%	25.7%
For the year ended 31 December						
2018	7,500	30,637	38,137	9,097	3,592	12,689
<i>% of total revenue</i>	14.8%	60.2%	75.0%	17.8%	7.1%	24.9%
2017	7,919	26,865	34,784	11,696	4,710	16,406
<i>% of total revenue</i>	15.5%	52.4%	67.9%	22.8%	9.2%	32.0%
2016	8,040	24,554	32,594	9,037	4,793	13,830
<i>% of total revenue</i>	17.3%	52.8%	70.1%	19.5%	10.3%	29.8%

Notes:

- (1) The above table does not include revenue generated from other businesses which mainly comprise of rental income from leasing of investment properties.
- (2) The non-mainland China market refers to Hong Kong and other markets but excluding the mainland China market.
- (3) Due to rounding, numbers presented may not add up precisely to the sub-totals indicated and percentages may not precisely reflect the absolute figures for the same reason.

As shown in table A, for the six months ended 30 June 2018 and 2019, the Group recorded revenue of HK\$24,474 million and HK\$23,821 million, respectively, which represents a decline of 2.7% in the first half of 2019 as compared to 2018. The decline was principally due to decreased revenue generated by the Group's consumer products business. For the three years

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ended 31 December 2018, the Group recorded revenue of HK\$46,462 million, HK\$51,238 million and HK\$50,878 million, respectively, which represent a year-on-year increase of 10.3% in 2017 and a year-on-year decrease of 0.7% in 2018. The increase in revenue in 2017 was a result of business enhancement in the mainland China motor business and the full-year contribution from LF Asia which was acquired in June 2016. The decrease in revenue in 2018 was a result of the decline in revenue from the consumer products business which was partially offset by the increase in revenue from the motor business. We were advised by the management of the Group that the drop in Group's consumer products business was mainly due to the portfolio optimisation in the restructuring mainland China food and FMCG business and as a result of the adoption of the accounting standard, Hong Kong Financial Reporting Standards ("HKFRS") 15 "Revenue from contracts with customers", while the motor business benefited from opening of new 4S shops in mainland China, enhanced front line capabilities and increased exposure to the premium vehicle segment.

(ii) Net gain on disposal of subsidiaries, associates and properties and remeasurement of an asset held for sale

The net gain on disposal of subsidiaries, associates and properties and remeasurement of an asset held for sale for the years ended 31 December 2016, 2017 and 2018 were HK\$526 million, HK\$80 million and HK\$429 million, respectively. The net gain recorded in 2016 was mainly due to (i) the disposal of a 100% interest in Guangdong Victory Electrical Appliances Manufacturing Co., Ltd. (originally an electrical appliances manufacturing company which was converted into a logistics centre two years prior to its disposal); (ii) the disposal of the Group's entire 26.04% interest in Shanghai Shineway DCH Co., Ltd. (which was mainly engaged in the production and sales of meat and related food products in mainland China); and (iii) remeasurement of an asset held for sale which was a property in Japan. The net gain recorded in 2017 was due to disposals of certain immaterial subsidiaries during the year and own-use properties. The net gain recorded in 2018 was due to the disposal of (i) Sing Wo Chong Investment Company Limited, a property holding company; (ii) certain immaterial subsidiaries; and (iii) own-use property during the year.

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(iii) Profit or loss after taxation

The net profit attributable to the Shareholders for the six months ended 30 June 2018 and 2019 were HK\$275 million and HK\$188 million, respectively. For the three years ended 31 December 2016, 2017 and 2018, the Group recorded net profit attributable to the Shareholders of HK\$511 million, HK\$802 million and HK\$820 million, respectively. Excluding one-off net gain on disposal of subsidiaries, associates and properties and remeasurement of an asset held for sale of HK\$526 million in 2016, HK\$80 million in 2017 and HK\$429 million in 2018, the net loss attributable to the Shareholders in 2016 was HK\$15 million and the net profit attributable to the Shareholders for the two years ended 31 December 2018 were HK\$722 million and HK\$391 million, respectively.

Set out below is a segmental breakdown of profit or loss after taxation of the Group for the three years ended 31 December 2018 and the six months ended 30 June 2018 and 2019:

	Motor business			Consumer products business		
	Non-mainland China market <i>HK\$'million</i>	Mainland China market <i>HK\$'million</i>	Sub-total <i>HK\$'million</i>	Non-mainland China market <i>HK\$'million</i>	Mainland China market <i>HK\$'million</i>	Sub-total <i>HK\$'million</i>
For the six months ended 30 June (unaudited)						
2019	215	271	486	156	(103)	53
2018	232	372	604	141	(185)	(44)
For the year ended 31 December						
2018	484	621	1,105	309	(311)	(2)
2017	494	684	1,178	300	(196)	104
2016	571	225	796	303	(103)	200

Notes:

- (1) The above table does not include profit after taxation from other businesses which mainly comprises of results from leasing of investment properties.
- (2) The non-mainland China market refers to Hong Kong and other markets but excluding the mainland China market.
- (3) Due to rounding, numbers presented may not add up precisely to the sub-totals indicated.

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The Group's motor business in mainland China recorded an increase in net profit of 204% in 2017 at HK\$684 million for the year ended 31 December 2017 from HK\$225 million for the year ended 31 December 2016. We are advised by the management of the Group that the increase was driven by business enhancement initiatives and the acquisition of the Mercedes-Benz and Audi dealership companies in 2017. However, profit declined in 2018 due to market contraction in the second half of the year and heightened competition in the mainland China automotive industry. As for the Group's non-mainland China motor business, profit was stable with a slight decline in the corresponding periods. In the first half of 2019, profit generated from motor business further declined primarily due to continued challenges in the mainland China motor market.

In the consumer products business, profit generated from the non-mainland China market was flat over the three year period ended 31 December 2018, while the mainland China operations recorded significant losses. We learned from the management of the Group that the Group's mainland China food and FMCG distribution business has been and is still going through a period of business restructuring with an aim to increase competitiveness and optimise its brand and service portfolio.

(iv) Dividend

The Company paid dividends for each of the three years ended 2016, 2017 and 2018 and the total dividend payout were approximately HK\$155 million, HK\$313 million and HK\$327 million, respectively. The interim dividend payout for each of the six months ended 30 June 2018 and 2019 were approximately HK\$94 million and HK\$80 million, respectively.

Comments

We have discussed the Company's historical operational and financial performance with the management of the Group. From our discussion, we understand that the mainland China motor business is the largest contributor to the Group's total revenue and profit. However, new vehicle sales margins are narrow in the competitive mainland China market and will need to be increasingly supported by operating scale and value-added services as the industry consolidates and matures. To maintain profitability, further 4S shop expansion and portfolio upgrades are required. In Hong Kong, the Group has a long operating history and a diverse range of businesses, but the industry is mature with limited opportunities for future growth and business expansion.

We are further advised by the management of the Group that while the acquisition of LF Asia resulted in growth in 2016 and 2017, organic growth opportunities in food and FMCG remain limited, particularly in the mature Hong Kong market. In Southeast Asia, operations remain relatively small in scale and will require resources for further development. In mainland China, operational challenges in the food and FMCG business have resulted in losses which increased from HK\$103 million in 2016 to HK\$311 million in 2018 and have adversely affected the overall profitability of the Group.

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Thus, in our view, the Group faces challenges in both motor business and consumer products business. We anticipate that market challenges will continue to put pressure on profit margins in the mainland China motor and consumer products business while the Hong Kong motor and consumer products business will struggle to deliver long-term growth. The non-mainland China consumer products business was able to achieve marginal year-on-year increase in profit in 2018-2019. However, the mainland China consumer products business incurred significant losses and dragged down the overall earnings of the Group. The segment net loss was reduced from HK\$185 million in the first half of 2018 to HK\$103 million in the first half of 2019 primarily due to the resolution of one-off costs in 2018, while the agency distribution business model remains under pressure from the proliferation of e-commerce and changing competitive landscape.

(b) Financial position

Set out below are the summarised consolidated balance sheets of the Company as at 31 December 2016, 2017 and 2018 and 30 June 2019 as extracted from the annual reports of the Company for the year ended 31 December 2017 and 2018 and the interim report of the Company for the six months ended 30 June 2019:

TABLE C: SUMMARISED CONSOLIDATED BALANCE SHEETS OF THE COMPANY

	As at 30 June 2019 HK\$' million (Unaudited)	As at 31 December 2018 HK\$' million	As at 31 December 2017 HK\$' million	2016 HK\$' million
Total assets	30,955	27,263	27,251	25,415
Right-of-use assets	4,377	–	–	–
Property, plant and equipment	4,044	4,019	3,784	3,318
Investment properties	238	231	229	215
Intangible assets	1,672	1,723	1,880	1,154
Goodwill	2,591	2,667	2,760	2,403
Debtors and other current assets	7,821	8,423	8,148	8,013
Cash and bank deposits	1,638	1,093	1,138	1,160
Total liabilities	20,730	16,470	16,539	16,171
Total borrowings	7,469	6,971	6,927	7,424
Total lease liabilities	3,742	–	–	–

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	As at 30 June 2019 HK\$' million (Unaudited)	As at 31 December 2018 HK\$' million	2017 HK\$' million	2016 HK\$' million
Net assets	10,225	10,793	10,712	9,244
Net assets attributable to non-controlling interests of the Company	477	511	567	512
Net assets attributable to shareholders of the Company ("NAV")	9,748	10,282	10,145	8,732
Net tangible assets ("NTAV") ^(Note)	5,485	5,892	5,505	5,175

Note: It is calculated based on the NAV less intangible assets and goodwill as at the same period/year end as shown in the above table.

(i) *Total assets*

As at 31 December 2016, 2017 and 2018 and 30 June 2019, the total assets of the Group were HK\$25,415 million, HK\$27,251 million, HK\$27,263 million and HK\$30,955 million, respectively, representing increases of 7.22%, 0.04% and 13.54%. The increase of total assets as at 31 December 2017 as compared to 31 December 2016 was mainly due to the consolidation of accounts of newly acquired businesses. The increase of total assets as at 30 June 2019 as compared to 31 December 2018 was primarily due to the Group's adoption of accounting standard HKFRS 16 "Leases" (which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less and leases of low value assets) and thus recorded right-of-use assets of HK\$4,377 million as at 30 June 2019, which was not previously stated in the financial statement of the Company. In this regard, we are advised by the management of the Group that the adoption of the new accounting standard has no material impact to the Group's net asset value. Details of the transitional impact to the Group as a result of the adoption of HKFRS 16 are set out in the interim report for the six months ended 30 June 2019 of the Company.

Property, plant and equipment and investment properties

As at 31 December 2016, 2017 and 2018 and 30 June 2019, the Group had property, plant and equipment of HK\$3,318 million, HK\$3,784 million, HK\$4,019 million and HK\$4,044 million,

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respectively, representing an increase of 14.04%, 6.21% and 0.62%, respectively. They are mainly food processing centres, warehouses, 4S shops and logistics centres which are necessary for and form part and parcel of the operations of the motor and consumer products businesses. The value of each of the motor and consumer products businesses is discussed in section 6 below.

The investment properties of the Group as at 31 December 2016, 2017 and 2018 and 30 June 2019 were HK\$215 million, HK\$229 million, HK\$231 million and HK\$238 million, respectively, representing increases of 6.51%, 0.87% and 3.03%. The investment properties are located in Hong Kong, mainland China and Japan and majority of which generate rental income to the Group. The investment properties are considered assets other than the motor and consumer products businesses of the Group and thus their value as extracted from the Company's interim report for 2019 has been considered separately from the values of the motor and consumer products businesses of the Group which has been further discussed in section 6 below.

Debtors and other current assets

The debtors and other current assets as at 31 December 2018 of HK\$8,423 million declined to HK\$7,821 million as at 30 June 2019. We are advised by the management of the Group that this was due to the improvement in receivables collection and ageing management in the consumer products business. As a result, cash and bank deposits of the Group improved from HK\$1,093 million as at 31 December 2018 to HK\$1,638 million as at 30 June 2019.

Intangible assets and goodwill

As at 31 December 2016, 2017 and 2018 and 30 June 2019, the Group had intangible assets and goodwill of HK\$1,154 million, HK\$1,880 million, HK\$1,723 million and HK\$1,672 million; and HK\$2,403 million, HK\$2,760 million, HK\$2,667 million and HK\$2,591 million, respectively. As advised by the management of the Group, the substantial portion of the intangible assets of the Group is related to the acquisition of motor dealerships over the years and the majority of the goodwill is related to the acquisition of LF Asia.

(ii) *Total liabilities*

The total liabilities of the Group rose from HK\$16,171 million as at 31 December 2016 to HK\$16,539 million as at 31 December 2017, but declined slightly to HK\$16,470 million as at 31 December 2018 and rebounded to HK\$20,730 million as at 30 June 2019. The total borrowings as at 31 December 2016, 2017 and 2018 and 30 June 2019 were HK\$7,424 million, HK\$6,927

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million, HK\$6,971 million and HK\$7,469 million, respectively, and the net gearing of the Group for the corresponding dates was 41.8%, 36.3%, 36.4% and 37.4%, respectively. We noted that the increase in total liabilities from 31 December 2018 to 30 June 2019 was primarily due to the total lease liabilities of HK\$3,742 million recorded as at 30 June 2019 due to the adoption of the aforementioned accounting standard. We have also discussed the level of total borrowings and net gearing of the Group with the management of the Group and they considered the net gearing of the Group for the past three and a half years to be relatively stable.

(iii) Net assets

Primarily as a result of the adoption of the new accounting standard, the NAV of the Group declined from HK\$10,282 million as at 31 December 2018 to HK\$9,748 million as at 30 June 2019. The NAV and the NTAV as at 30 June 2019 were HK\$5.15 per Share (calculated based on a total of 1,891,247,220 Shares in issue as at the date of Joint Announcement) and HK\$2.90 per Share.

Comments

The NAV of the Group attributable to the Shareholders was HK\$9,748 million or HK\$5.15 per Share as at 30 June 2019.

The value of intangible assets and goodwill is substantial, representing HK\$4.3 billion or 43.7% of the NAV of the Group attributable to the Shareholders as at 30 June 2019. The NTAV of the Group attributable to the Shareholders as at 30 June 2019 was HK\$5.5 billion or HK\$2.90 per Share. The intangibles and goodwill relate to both the motor business and consumer products business. This is further discussed in this section under “(b) Financial position” above.

4. Industry overview and prospects of the Group’s businesses

The Group has two major business segments, the motor business and consumer products business, which accounted for 75% and 25% of the total revenue of the Group for the year ended 31 December 2018, respectively. In respect of the motor business, the mainland China and non-mainland China market segments accounted for 80% and 20% of the total revenue of the motor business in 2018. In respect of the consumer products business, food and FMCG accounted for approximately 72.3% of total segmental revenue for the year ended 31 December 2018.

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Motor market

Mainland China motor market

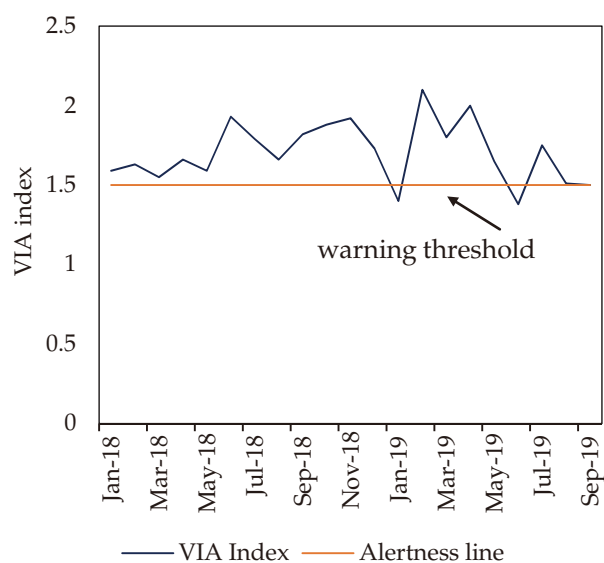
TABLE D: THE VEHICLE UNIT SALES AND INVENTORY PRESSURE IN MAINLAND CHINA

(a) THE VEHICLE UNIT SALES IN MAINLAND CHINA

Month-Year	Vehicle sales (in million units)	Year-on-year growth	Month-Year	Vehicle sales (in million units)	Year-on-year growth
Jan-18	2.80	11.5%	Jan-19	2.36	-15.7%
Feb-18	1.71	-11.4%	Feb-19	1.48	-13.7%
Mar-18	2.65	4.5%	Mar-19	2.52	-5.1%
Apr-18	2.31	11.3%	Apr-19	1.98	-14.6%
May-18	2.28	9.1%	May-19	1.91	-16.4%
Jun-18	2.27	4.7%	Jun-19	2.05	-9.6%
Jul-18	1.88	-4.2%	Jul-19	1.80	-4.3%
Aug-18	2.10	-3.8%	Aug-19	1.95	-6.9%
Sep-18	2.39	-11.6%	Sep-19	2.27	-5.2%
Oct-18	2.38	-12.0%	Oct-19	2.28	-4.0%
Nov-18	2.54	-13.9%			
Dec-18	2.66	-13.0%			

Source: the CAAM website

(b) THE VIA INDEX



Source: the CADA website

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As shown in the above table, the automotive market recorded year-on-year growth in the first half of 2018 but declined for 16 consecutive months beginning in July 2018, resulting in the first extended market contraction in decades according to the China Association of Automobile Manufacturers (the “CAAM”) 中國汽車工業協會, a non-profit association registered with the Ministry of Civil Affairs of the People’s Republic of China (“PRC”). It was reported that the Sino-US trade tensions, the economic slowdown, changing emission policies and the crackdown on peer-to-peer lending impacted new vehicle demand.

The continuous decline in vehicle sales resulted in increasing inventory pressure on automotive dealers in the mainland China market. The China Automobile Dealers Association (the “CADA”) 中國汽車流通協會, a national automobile association registered with the Ministry of Civil Affairs of the PRC, publishes the Vehicle Inventory Alert Index (the “VIA Index”) 汽車庫存預警指數 on a monthly basis to reflect the operational risk of automotive dealers. A higher the VIA Index represents the higher inventory pressure the automotive dealers have.

As shown in the chart above, the VIA index was well above the warning threshold for most of the period from January 2018 to October 2019, indicating that automotive dealers faced considerable inventory pressure amid the auto sales downturn.

We have reviewed the reports issued by CADA and iResearch Consulting Group, a market intelligence provider specialized in PRC internet market, and noted that apart from macroeconomic factors and government policies, new business models and evolving consumer preferences have intensified the competition in the mainland China motor market. The rise of the middle class has driven demand for premium brands while the rapid digitalisation has prompted automotive dealers to respond to the market changes by rapidly investing in new marketing, distribution and customer service models.

Looking forward, should Sino-US trade tensions, slowing economic growth and increasing competition in the mainland China motor market continue, it is expected that dealers in the mainland China will continue to face performance challenges.

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Hong Kong motor market

According to the Census and Statistics Department of the Government of the Hong Kong Special Administrative Region (the “**Hong Kong Statistics Department**”), the total of newly registered vehicles was stable at around 49,000 units to 53,000 units per year from 2016 to 2018.

However, in light of economic uncertainty, Hong Kong consumers have reduced spending as evidenced by the decline in retail sales of motor vehicles and parts published by the Hong Kong Statistics Department. The value of monthly total retail sales of motor vehicles and parts fell by 8.3%, 5.3%, 15.6% and 16.1% for the four months ended 30 September 2019 as compared to the same of corresponding months in 2018. It is anticipated that the operating environment of motor business will remain uncertain until the local economy recovers.

Consumer products market

Mainland China consumer products market

As e-commerce and online grocery shopping have gained popularity in mainland China, market participants that sell consumer products via traditional retail channels such as supermarkets are facing increasing challenges. According to the National Bureau of Statistic of China 國家統計局, the growth rate of total sales of commodities of chain retail enterprises (integrated retail)* 連鎖零售企業商品銷售額 (綜合零售)* in mainland China dropped significantly within a five-year period, from 10% in 2013 to -1% in 2017.

The Group’s mainland China food and FMCG business recorded a decrease in revenue of 13.8% with widened operating losses in 2018 as compared to the preceding year. Although the Group has made efforts to streamline its operations and focus on higher-value business streams, with China’s economic slowdown, Sino-US trade tensions and rapid evolving consumer preferences, the outlook of the Group’s food and FMCG business in mainland China remains challenging.

Hong Kong consumer products market

As advised by the management of the Group, the food and FMCG business can be impacted by the performance of the local economy, grocery retailing and catering sectors. According to the Hong Kong Statistics Department, Hong Kong’s gross domestic product in real terms (“GDP”) grew at year-on-year rates between 1.2% and 4.6% from the first quarter of 2017 to the fourth quarter of 2018. Starting from 2019, Hong Kong’s GDP only recorded 0.6% and 0.4% growth in the first and second quarter of 2019, respectively, as compared to corresponding quarters in 2018 and decreased by 2.9% in the third quarter of 2019 from a year earlier. In respect of the catering sector, we note from the statistical data published by the Hong Kong Statistics Department that the year-on-year growth rate of the quarterly total value receipt of local restaurants stayed above 2.0% from the first quarter of 2017 to the

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first quarter of 2019, but then declined to -0.5% in the second quarter of 2019 and further declined to -11.7% in the third quarter of 2019 as compared to a year ago. Affected by the poor performance of the local restaurants, the year-on-year growth rate of quarterly total value of purchases by local restaurants for the first time in the past two and half years fell below 1.0% in second quarter of 2019 and decreased to -10.9% (preliminary estimate as announced by the Hong Kong Statistics Department) in the third quarter of 2019 comparing to the same period in 2018. In respect of the grocery retailing, according to the Hong Kong Statistics Department, the monthly index of retail sales of supermarkets for the third quarter of 2019 was about the same as that for the third quarter of 2018. It is believed that this segment is less affected by the softening Hong Kong economy.

In view of the above, save for grocery retailing, the outlook of the food and beverage industry is anticipated to remain uncertain in the near future.

Comments

In mainland China, slowing economic growth and Sino-US trade tensions have increased complexity in the motor market while new business models and evolving consumer preferences have intensified market competition. Faced with these headwinds and the downturn in demand, profit after taxation generated from the Group's mainland China motor business fell by 27.2% in the first half of 2019 and 9.2% in the year ended 31 December 2018 as compared to the corresponding period and year in 2018, respectively. For consumer products business, the rise of e-commerce in mainland China has impacted the Group's distribution of products business. Despite some improvement is seen by reducing the six-month segment loss from HK\$185 million in 2018 to HK\$103 million in 2019, further business enhancement is needed to achieve sustainability in the rapidly evolving market.

In Hong Kong, the declining economy has resulted in a drop in the value of monthly total retail sales of motor vehicles and parts as well as the quarterly total value receipt and purchases of local restaurants while grocery retailing has been stable as shown in the data published by the Hong Kong Statistics Department. The declining economy seems to have minimal or no effect on grocery retailing while the Group's food and FMCG distribution to local supermarkets and its retail stores accounted for less than half of the Group's non-mainland China consumer products business in terms of revenue for 2018 as advised by the management of the Group. However, the deteriorating economy, in our view, might affect the Group's motor and other consumer products businesses in Hong Kong. As it is uncertain as to when the local economy will recover, the operating environment of the Hong Kong retail industry may face difficulties in the near future.

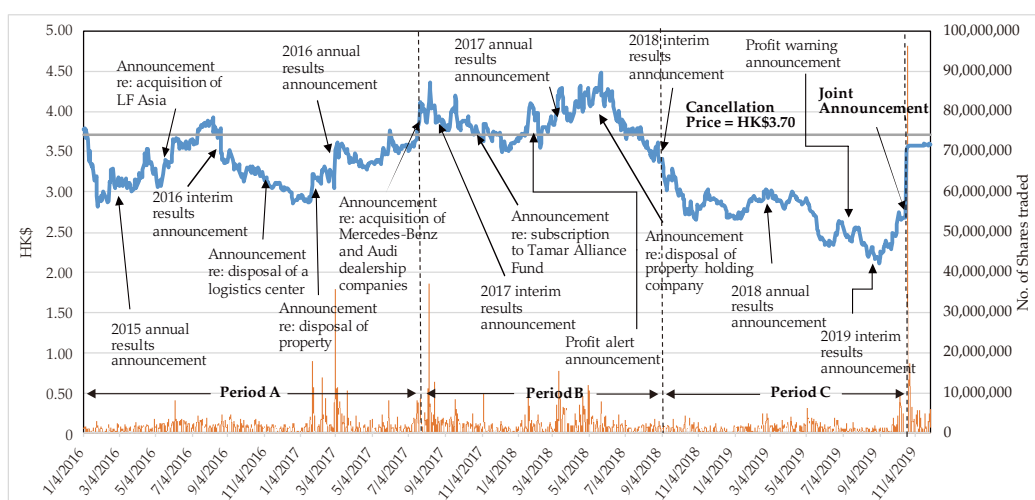
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5. Analysis of market price of the Shares

(a) Historical price performance compared to the Cancellation Price of HK\$3.70 per Scheme Share

The Share price performance since 1 January 2016 includes the impacts of recent major acquisitions of the Group such as the acquisition of LF Asia in 2016 and Mercedes-Benz and Audi dealership companies in 2017 are in our view useful and relevant for the Scheme Shareholders in considering the Proposal. Set out below is a summary of the closing prices of the Shares from 1 January 2016 up to and including the Latest Practicable Date (the “Review Period”):

CHART 1: SHARE PRICE CHART



Source: Bloomberg and the Stock Exchange website

During the Review Period, the Shares closed between HK\$2.11 per Share and HK\$4.49 per Share and closed lower than the Cancellation Price in 719 days out of a total of 963 trading days. As shown in the above diagram, the closing price of the Shares are generally below the Cancellation Price from the beginning of 2016 until the Company was about to announce the acquisition of the Mercedes-Benz and Audi dealership companies on 21 July 2017 (the “Period A”). The closing price of the Shares was then above the Cancellation Price until about one month before the Company announced its interim results for the six months ended 30 June 2018 on 27 August 2018 (the “Period B”). The Shares then closed below the Cancellation Price until the release of the Joint Announcement (the “Period C”).

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During Period A, the Shares closed below than the Cancellation Price on 348 days out of a total of 377 trading days. The Company announced (i) its acquisition of LF Asia at a consideration of US\$350 million on 3 May 2016; (ii) its disposal of 100% interest in Guangdong Victory Electrical Appliances Manufacturing Co., Ltd. (originally an electrical appliances manufacturing company which was converted into a logistics centre two years prior to its disposal) at a consideration of RMB418 million; and (iii) its disposal of a property in Tokyo at a consideration equivalent to HK\$375.7 million on 27 January 2017. The Share price went up after the Company announced the acquisition of LF Asia and reached a peak of HK\$3.92 per Share on 9 August 2016 before falling back below the Cancellation Price a few days afterwards. During the period, the Company issued two final results announcements and reported a decrease in profitability from a full year net profit of HK\$750 million in 2014 to HK\$570 million in 2015 and further to HK\$511 million in 2016.

During most of Period B, the Shares closed higher than the Cancellation Price. The Company announced (i) its acquisition of Mercedes-Benz and Audi dealership companies at a total consideration of RMB920.8 million on 21 July 2017; (ii) its subscription of Tamar Alliance Fund (which invests in the consumer and healthcare sectors in the Greater China and Southeast Asia) at a capital commitment equivalent to HK\$273 million; and (iii) its disposal of Sing Wo Chong Investment Company, Limited, a property holding company, at a consideration of HK\$421 million on 16 May 2018. The Share price surged above the Cancellation Price after the Company announced its acquisition of Mercedes-Benz and Audi dealership companies and fluctuated between HK\$3.49 per Share and HK\$4.37 per Share before its profit alert announcement published on 22 January 2018. The Company announced its final results for 2017 on 8 March 2018 and its profitability increased substantially due to a marked improvement in the performance of the Group's mainland China motor business and the full-year contribution from LF Asia. The Share closing price then edged higher to HK\$4.49 per Share on 24 May 2018 but then trended downwards and dropped below the Cancellation Price on 2 August 2018. We have discussed this movement with the management of the Group and they are unaware of the reasons for such fluctuation in the Share price.

Throughout Period C, the Shares closed below the Cancellation Price. The Company did not need to announce any transaction required to be disclosed under the Listing Rules requirements. The Company announced its interim results and final results for 2018 on 27 August 2018 and 26 February 2019, respectively, and reported improved profitability, which has been discussed in section 3 above, of an 18.5% increase in net profit which amounted to HK\$275 million and which amounted to a 57.0% increase in net profit to HK\$802 million. The Shares closed most of the time in the region of HK\$2.5-HK\$3.0 per Share and fell further to its lowest of HK\$2.11 per Share on 3 September 2019 after the announcement of the Company's 2019 interim results. We have discussed this movement with the management of the Group and they are unaware of the reasons for such fluctuation in the Share price other than the interim results announcement for 2019.

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Trading of the Shares was suspended from 15 October 2019 to 18 October 2019 pending the release of the Joint Announcement. The Shares closed at HK\$3.52 per Share on 21 October 2019 (being the first trading day after the release of the Joint Announcement), representing an increase of 30.9% from the last closing price before the trading halt and a discount of 5.1% to the Cancellation Price. After the release of the Joint Announcement and up to the Latest Practicable Date, the closing price of the Shares was between HK\$3.52 per Share and HK\$3.60 per Share, with an average closing price of HK\$3.58 per Share. As at the Latest Practicable Date, the price of the Shares closed at HK\$3.59 per Share.

In summary, a comparison of the Cancellation Price of HK\$3.70 per Scheme Share with the recent closing prices of the Shares is set out as follows:

TABLE E: SHARE PRICE COMPARISONS

	Cancellation Price of HK\$3.70 per Scheme Share	
	Closing price or average closing price of the Shares⁽²⁾	Premium of⁽²⁾
Last Trading Date	HK\$2.69	37.55%
10 trading days ⁽¹⁾	HK\$2.60	42.31%
30 trading days ⁽¹⁾	HK\$2.39	54.81%
60 trading days ⁽¹⁾	HK\$2.37	56.12%
90 trading days ⁽¹⁾	HK\$2.40	54.17%
180 trading days ⁽¹⁾	HK\$2.62	41.22%
Latest Practicable Date	HK\$3.59	3.06%

Source: Bloomberg and the Stock Exchange website

Notes:

(1) Up to and including the Last Trading Date

(2) Subject to rounding differences

The Cancellation Price of HK\$3.70 per Share represents a premium of about 37.55% – 56.12% over the Share price on the Last Trading Date and the average closing price of the Shares for the 10, 30, 60, 90 and 180 trading days (up to and including the Last Trading Date) before the release of the Joint Announcement. We consider that the Share price following the release of the Joint Announcement has been largely affected by the terms of the Proposal and the Scheme.

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(b) *Trading liquidity of the Shares*

Set out in the table below are the monthly total trading volumes of the Shares and the percentages of such monthly total trading volumes to the total issued share capital and the public float of the Company from the start of 2018 to the Latest Practicable Date:

TABLE F: TRADING LIQUIDITY OF THE SHARES

	Monthly total trading volume of the Shares	Percentage of the monthly total trading volume of the Shares to the total issued Shares ⁽¹⁾	Percentage of the monthly total trading volume to the public float ⁽²⁾
2018			
January	51,093,817	2.70%	6.26%
February	31,206,508	1.65%	3.82%
March	92,602,822	4.90%	11.34%
April	64,903,569	3.43%	7.95%
May	77,512,242	4.10%	9.49%
June	33,448,481	1.77%	4.10%
July	23,004,940	1.22%	2.82%
August	34,838,032	1.84%	4.27%
September	24,273,640	1.28%	2.97%
October	31,273,875	1.65%	3.83%
November	19,329,339	1.02%	2.37%
December	11,561,139	0.61%	1.42%
2019			
January	26,694,291	1.41%	3.27%
February	31,190,221	1.65%	3.82%
March	30,796,214	1.63%	3.77%
April	31,276,720	1.65%	3.83%
May	50,858,749	2.69%	6.23%
June	28,177,194	1.49%	3.45%
July	17,983,623	0.95%	2.20%
August	16,241,227	0.86%	1.99%
September	18,505,961	0.98%	2.27%
October ⁽³⁾	224,737,153	11.88%	27.52%
From 1 November 2019 up to and including the Latest Practicable Date	54,446,436	2.88%	6.67%

Source: *Bloomberg and the Stock Exchange website*

Notes:

- (1) The calculation is based on the monthly total trading volumes of the Shares divided by the total issued share capital of the Company of 1,891,247,220 as at the Latest Practicable Date.
- (2) The calculation is based on the monthly total trading volumes of the Shares divided by the total number of Shares in the public float of 816,769,302 as at the Latest Practicable Date.
- (3) Trading in the Shares was suspended from 15 October 2019 to 18 October 2019 pending to the release of the Joint Announcement.

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Based on the above table, save for the surges in trading volume in March and May 2018 following the announcement of (a) the Company's final results for the year ended 31 December 2017 on 8 March 2018 and (b) the disposal of Sing Wo Chong Investment Company, Limited, a property holding company, on 16 May 2018, and in October 2019 following the release of the Joint Announcement, we are of the view that liquidity of the Shares was generally low during the period.

The Scheme Shareholders (especially those with relatively sizeable shareholdings) may not be able to realise their investments in the Shares at a price higher than the Cancellation Price, in particular when they are going to dispose their entire holdings. As the Shares cannot be regarded as having been actively traded, the Proposal provides an exit alternative for the Scheme Shareholders (especially those with relatively sizeable shareholdings) who are unsure of the future prospects of the Group and would like to realise their investments in the Shares at a fixed cash price without disturbing the market price.

(c) Discount of the Share price to the NAV per Share

The Cancellation Price of HK\$3.70 per Scheme Share represents a discount of approximately 28.16% to the NAV per Share of approximately HK\$5.15 as at 30 June 2019 (calculated based on a total of 1,891,247,220 Shares in issue as at the Latest Practicable Date). In assessing the fairness and reasonableness of the Cancellation Price, we have also reviewed, as set out in the table below, the monthly average Share closing prices and the corresponding discounts of the monthly average Share closing prices to the NAV per Share from 1 July 2019, being the first day subsequent to the end of the latest interim financial period (i.e. 30 June 2019), to the Last Trading Date.

Period	Monthly average Share closing price	Discount of the monthly average Share closing price to NAV per Share
2019		
July	HK\$2.50	51.46%
August	HK\$2.28	55.73%
September	HK\$2.31	55.15%
From 1 October 2019 up to and including the Last Trading Date ⁽¹⁾	HK\$2.63	48.93%

Source: Bloomberg and the Stock Exchange website

Notes:

- (1) Trading in the Shares was suspended from 15 October 2019 to 18 October 2019 pending to the release of the Joint Announcement.
- (2) Subject to rounding differences.

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As set out in the table above, during the period from 1 July 2019 to the Last Trading Date, the Shares have been trading at discounts to the NAV per Share ranging from approximately 48.93% to approximately 55.73%. The discounts of the closing price of the Shares narrowed only in the last period to approximately 48.93% as the Joint Announcement released on 21 October 2019. Based on the Cancellation Price of HK\$3.70 per Scheme Share and the NAV per Share of approximately HK\$5.15 as at 30 June 2019, the Cancellation Price represents a discount to the NAV per Share of approximately 28.16%, which is significantly less than the historical discounts of the Shares as discussed above.

Comments

The Cancellation Price of HK\$3.70 per Scheme Share represents a premium of 37.55% – 56.12% over the Share price on the Last Trading Date and the average closing price of the Shares for the 10, 30, 60, 90 and 180 trading days (up to and including the Last Trading Date) before the release of the Joint Announcement. During the Review Period, the Shares closed between HK\$2.11 per Share and HK\$4.49 per Share and closed lower than the Cancellation Price in 719 days out of a total of 963 trading days. The Shares have not, in our opinion, been actively traded in the year before the release of the Joint Announcement and therefore the Proposal provides an opportunity for the Scheme Shareholders to exit at a fixed cash.

The recent over-performance of the Shares is, in our opinion, due to the release of the Joint Announcement. Shareholders should therefore be aware that the current Share price may not be sustainable if the Proposal and the Scheme lapse and the Share price may return to the level before the release of the Joint Announcement.

6. Cross-check of the value of the Group based on sum-of-the-parts

We have performed an assessment on the value of the Group based on the sum of value of its (a) motor business; (b) consumer products business; and (c) other assets and liabilities. As discussed in section 3 above, the financial performance of the motor business and the non-mainland China consumer products business has been generating stable profits but the mainland China consumer products business has been reporting segment losses.

In order to assess the value of the Group, we have employed the segmental financial information for the trailing 12 months ended 30 June 2019 which is extracted and derived from the segmental information set out in the annual report of the Company for the year ended 31 December 2018 and the interim report of the Company for the six months ended 30 June 2019. The price-to-earnings ratio (“**PE Ratio**”) is considered appropriate in the context of valuation for the motor business and the non-mainland China customer products business and therefore, we have applied the average PE Ratio of the relevant comparable companies to the respective earnings of the above motor business and non-mainland China consumer products business to assess their values. The equity value of each of the business segments derived by using PE Ratio is based on the profitability generated from the operation comprising all the assets (including properties and cash) and liabilities (including borrowings) that are essential for running the subject business.

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(a) Motor business

In terms of comparable companies, we have selected companies that (i) are primarily engaged in the automotive dealership business; (ii) have been profitable and recorded revenue of over RMB10 billion but less than RMB100 billion for the year ended 31 December 2018; and (iii) are listed on the Main Board of the Stock Exchange. Set out below are our findings based on the aforementioned criteria:

Company	Stock Code	PE Ratio (times)^(Note)
China MeiDong Auto Holdings Limited	1268	16.63
China Harmony New Energy Auto Holding Limited	3836	6.64
China Yongda Automobiles Services Holdings Limited	3669	8.87
China ZhengTong Auto Services Holdings Limited	1728	5.36
Grand Baoxin Auto Group Limited	1293	7.67
Average		9.03

Source: Bloomberg

Note: The PE Ratios of the comparable companies are calculated based on their respective market capitalisation on 18 October 2019, being their last trading day before the release of the Joint Announcement, divided by the respective net profit attributable to shareholders for the trailing 12-month ended 30 June 2019.

The net profit of the motor business for the trailing 12-month ended 30 June 2019 amounted to HK\$367 million, after deducting the reconciliation items and related tax effect which has been allocated based on segmental profit after taxation between the motor business and the non-mainland China consumer products business and almost all of the non-controlling interests of which, as advised by the management of the Group, is attributable to the motor business. By using the average PE Ratio of the comparable companies of 9.03 times, value of the Group's motor business would be HK\$3,314 million.

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(b) Non-mainland China Consumer products business

We have selected companies that (i) are primarily engaged in the food and FMCG wholesaling/ distribution/ trading business which are considered to be similar to those of the Group; (ii) are listed on the Main Board of the Stock Exchange; and (iii) are profitable for the year ended 31 December 2018. Set out below are our findings based on the aforementioned criteria:

Company	Stock Code	PE Ratio (times) ^{(1) (2)}
Beijing Jingkelong Company Limited	814	7.96
B&S International Company Limited	1705	19.01
Average		13.49

Source: Bloomberg

Notes:

- (1) The PE Ratio of Beijing Jingkelong Company Limited is calculated based on its market capitalisation on 18 October 2019, being its last trading day before the release of the Joint Announcement, divided by its net profit attributable to shareholders for the trailing 12-month ended 30 June 2019.
- (2) The PE Ratio of B&S International Company Limited is calculated based on its market capitalisation on 18 October 2019, being its last trading day before the release of the Joint Announcement, divided by its net profit attributable to shareholders for the year ended 31 March 2019.

The net profit of the non-mainland China consumer products business for the trailing 12-month ended 30 June 2019 amounted to HK\$165 million, after deducting the reconciliation items and related tax effect which has been allocated based on segmental profit after taxation between the motor business and non-mainland China consumer products business. By applying the average PE Ratio of comparable companies of 13.49 times, the value of the Group's non-mainland China consumer products business would be HK\$2,226 million.

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(c) Mainland China consumer products business

The mainland China consumer products business has been loss making since 2015 with accumulated segment losses (after tax) of HK\$766 million and was in net liability position as at 30 June 2019 based on the information provided by the Group. The channel landscape has changed due to shifts in customer behaviour. The rise of the e-commerce giants and discounters is squeezing grocers and traditional retail formats. The increasing competition forces mass merchants to become tougher trading partners. They have adopted more aggressive procurement strategies by increasing the number of products offered to customers while reducing inventory levels. This is also contributing to disintermediation of well-established brands. The Group's agency distribution business is, therefore, at risk with declining volumes and a decreasing number of principals, as advised by the management of the Group. It is also noted that the Offeror will conduct a thorough review of the Group's operations and, with a view to enable long-term growth and sustainability, may restructure certain operations, particularly those that are loss making. The substantial loss incurred by the mainland China consumer products business make it difficult to provide a value to the mainland China consumer products business based on PE Ratio.

(d) Other assets and liabilities

We have reviewed the interim reports and annual reports of the Company and noted that no information is available on segmental assets and liabilities and therefore have discussed with and reviewed the information provided by the management of the Group. As discussed in section 3 above, the properties that have been classified as property, plant and equipment in the consolidated balance sheet of the Company are mainly food processing centres, warehouses, 4S shops and logistics centres which are necessary for and form part and parcel of the operations of the motor and consumer products businesses. As at 30 June 2019, the Group had a cash and bank deposits of HK\$1,638 million and borrowings of HK\$7,469 million, both on a consolidated basis, indicating that majority of the cash should not be idle or surplus but should be necessary for the operation of the business units as it would be logical for the Group to repay its indebtedness if it had surplus cash that is more than necessary to run the business. However, the Group holds some cash for headquarter expenses and contingency use. Therefore, when conducting the sum-of-the-parts value of the Group, the assets and liabilities which do not belong to the business units have been classified as other assets and liabilities.

The only other assets can be identified in the financial statements of the Company is investment properties. As stated in the interim report of the Company, the investment properties of the Group amounted to HK\$238 million as at 30 June 2019 and, as advised by the management of the Group, they are ungeared and majority of which generate rental income to the Group.

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In order to perform the sum of the parts assessment on the Group, we have been provided with the breakdown of the assets and liabilities by business segments and it is noted that the remaining assets less liabilities (including cash of HK\$100 million but excluding those relating to (a), (b), (c) and the abovementioned investment properties) are net assets (“**Other Net Assets**”). However, based on the information provided by the Group, the combined effect of net liabilities of the mainland China consumer products business and the Other Net Assets would be insignificant.

A summary of the sum-of-the-parts of the Group’s value is set out below:

	HK\$ million
Assessed value of:	
(i) Motor business	3,314
(ii) Non-mainland China consumer products business	2,226
Sub-total	5,540
Investment properties	238
Assessed value of the Group (the “ Sum-of-the-parts Value ”)	5,778
Which is equivalent to	HK\$3.06 per Share

The sum of the Group’s motor business value and non-mainland China consumer products business value, based on the above analysis, would be HK\$5,540 million. Taking also into account the investment properties, which are held for rental income purposes and are considered unrelated to the motor business and consumer products business, the Sum-of-the-parts Value is approximately HK\$5,778 million or HK\$3.06 per Share.

Comments

The Group’s unaudited NAV as at 30 June 2019 was HK\$9,748 million or HK\$5.15 per Share, comprising intangible assets of HK\$1,672 million and goodwill of HK\$2,591 million, and NTAV was HK\$5,485 million or HK\$2.90 per Share. As advised by the management of the Group, the intangible assets and goodwill relate to both the motor business and consumer products business.

The Sum-of-the-parts Value per Share, which is based on the recent 12-month profitability of the business segments and their respective peers’ PE Ratios and value of the investment properties as per the interim report for 2019, is HK\$3.06 which is HK\$0.16 higher than the NTAV per Share of the Group as at 30 June 2019.

The Cancellation Price of HK\$3.70 per Scheme Share represents a premium of 20.92% over the Sum-of-the-parts Value per Share.

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7. Privatisation precedents

We have compared the Proposal with privatisation proposals of other companies listed on the Stock Exchange announced since 1 January 2017 and up to the Latest Practicable Date, excluding privatisation proposals which were not or yet to be approved (or, where applicable, required acceptance level were not or yet to be achieved) or without a cash cancellation consideration (the “**Privatisation Precedents**”), which represent an exhaustive list of privatisation proposals we were able to identify from the Stock Exchange’s website satisfying the above selection criteria. The table below illustrates the premiums or discounts represented by the cancellation consideration over or to the respective last trading day, 5, 30, 60, 90 and 180 trading days (up to and including the last trading days) average share prices and latest NAV per share in respect of such privatisation proposals respectively. The Privatisation Precedents set out below provide, in our view, a comparison between the cancellation price and the then prevailing market prices and NAV per share of successful privatisation proposals, although the business nature and scale of each company vary and some aspects of pricing may be industry-specific.

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TABLE G: PRIVATISATION PRECEDENTS

Date of initial announcement	Company	Premium/ (discount) of NAV per share ⁽¹⁾⁽⁵⁾ (%)	Premium/(discount) of offer/cancellation price over the average share price prior to the privatisation proposal					
			Last trading day ⁽⁵⁾ (%)	5 trading days ⁽⁴⁾⁽⁵⁾ (%)	30 trading days ⁽⁴⁾⁽⁵⁾ (%)	60 trading days ⁽⁴⁾⁽⁵⁾ (%)	90 trading days ⁽⁴⁾⁽⁵⁾ (%)	180 trading days ⁽⁴⁾⁽⁵⁾ (%)
12-Aug-19	TPV Technology Limited (903)	(24.76)	41.39	46.77	54.40	74.66	87.38	138.27
27-Jun-19	Asia Satellite Telecommunications Holdings Ltd. (1135)	10.01	23.43	31.53	44.35	50.52	56.51	70.90
14-Jun-19	China Automation Group Limited (569)	16.01	23.97	27.12	47.06	47.06	47.06	42.86
4-Apr-19	China Hengshi Foundation Company Ltd. (1197)	42.05	10.62	14.68	17.37	19.05	24.38	27.55
28-Mar-19	China Power Clean Energy Development Company Ltd. (735)	(35.08)	41.93	54.83	78.10	93.95	101.85	88.58
5-Dec-18	Hopewell Holdings Limited (54)	(35.56)	46.69	48.83	55.51	54.09	49.63	43.65
30-Oct-18	Advanced Semiconductor Manufacturing Corporation Limited (3355)	89.87	66.67	85.19	100.00	92.31	89.87	85.19
27-Sep-18	Sinotrans Shipping Ltd. (368)	(25.21)	50.00	55.17	42.86	37.76	32.35	27.96

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Date of initial announcement	Company	Premium/ (discount) of NAV per share ⁽¹⁾⁽⁵⁾ (%)	Premium/(discount) of offer/cancellation price over the average share price prior to the privatisation proposal					
			Last trading day ⁽⁵⁾ (%)	5 trading days ⁽⁴⁾⁽⁵⁾ (%)	30 trading days ⁽⁴⁾⁽⁵⁾ (%)	60 trading days ⁽⁴⁾⁽⁵⁾ (%)	90 trading days ⁽⁴⁾⁽⁵⁾ (%)	180 trading days ⁽⁴⁾⁽⁵⁾ (%)
10-Jun-18	Hong Kong Aircraft Engineering Company Limited (44)	99.25	63.20	63.24	62.43	60.25	56.96	49.98
7-Jun-18	Portico International Holdings Ltd. (589)	(9.89)	50.18	51.85	49.09	45.39	45.91	49.64
10-Nov-17	Welling Holding Ltd. (382)	22.62	30.38	30.38	33.77	35.53	28.75	22.62
3-Jul-17	China Assets (Holdings) Limited (170)	(53.82)	61.52	70.43	76.62	77.08	76.62	73.91
19-Jun-17	Bloomage BioTechnology Corporation Limited (963)	215.28	13.99	20.92	24.43	30.30	33.72	32.52
29-May-17	China Metal International Holdings Inc. (319)	27.54	27.54	26.47	25.94	22.86	24.38	18.50
28-Apr-17	Belle International Holdings Ltd. (1880)	75.46	19.54	23.29	21.39	23.05	28.31	26.51
20-Apr-17	TCC International Holdings Limited (1136)	(4.00)	38.46	42.29	51.26	66.67	76.47	88.48
29-Mar-17	Goldin Properties Holdings Limited (0283)	101.34	14.21	22.45	33.73	31.39	33.33	44.00
13-Mar-17	Shangdong Luoxin Pharmaceutical Group Stock Co., Ltd. (8058)	223.81	31.78	30.37	39.69	48.60	54.55	50.44
7-Mar-17	Yingde Gases Group Company Limited (2168)	46.70	(3.54)	2.04	20.00	45.63	57.07	74.93

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Date of initial announcement	Company	Premium/ (discount) of NAV per share ⁽¹⁾⁽⁵⁾ (%)	Premium/(discount) of offer/cancellation price over the average share price prior to the privatisation proposal					180 trading days ⁽⁴⁾⁽⁵⁾ (%)
			Last trading day ⁽⁵⁾ (%)	5 trading days ⁽⁴⁾⁽⁵⁾ (%)	30 trading days ⁽⁴⁾⁽⁵⁾ (%)	60 trading days ⁽⁴⁾⁽⁵⁾ (%)	90 trading days ⁽⁴⁾⁽⁵⁾ (%)	
10-Jan-17	Intime Retail (Group) Company Limited (1833)	60.86	42.25	47.49	51.75	53.61	52.67	53.61
	Maximum	223.81	66.67	85.19	100.00	93.95	101.85	138.27
	Minimum	(53.82)	(3.54)	2.04	17.37	19.05	24.38	18.50
	Average	42.12	34.71	39.77	46.49	50.49	52.89	55.51
Cancellation Price	HK\$3.70 per Scheme Share	(28.16)	37.55	37.55	54.81	56.12	54.17	41.22
		27.59 ⁽²⁾						
		20.92 ⁽³⁾						

Source: Bloomberg and the Stock Exchange website

Notes:

- (1) It represents the premium/(discount) of offer or cancellation price over or to the NAV per share quoted from the respective privatisation documents without taking into account any adjustments arising from, amongst others, revaluation of properties set out therein.
- (2) Calculated based on the NTAV per Share of HK\$2.90.
- (3) Calculated based on the Sum-of-the-parts Value per Share of HK\$3.06 as discussed in section 6 above.
- (4) Up to and including the last trading day of the shares.
- (5) Subject to rounding differences.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(a) Premiums over the prevailing share price

It is noted that the premiums/(discount) of the above Privatisation Precedents ranged from (3.54)% to 66.67%, 2.04% to 85.19%, 17.37% to 100.00%, 19.05% to 93.95%, 24.38% to 101.85% and 18.50% to 138.27% over their respective last trading day, 5, 30, 60, 90 and 180 trading day (up to and including the last trading day) average share prices with average premiums of 34.71%, 39.77%, 46.49%, 50.49%, 52.89%, and 55.51%, respectively.

The premiums offered by the Cancellation Price over the last trading day, 5, 30, 60, 90 and 180 trading day (up to and including the last trading day) average Share price are 37.55%, 37.55%, 54.81%, 56.12%, 54.17% and 41.22%, respectively. The premiums represented by the Cancellation Price over the last trading day, 5, 30, 60, 90 and 180 trading days (up to and including the last trading day) average Share price are within the range of the respective premiums represented by the Privatisation Precedents. In addition, the premiums represented by the Cancellation Price over the last trading day, 30, 60 and 90 trading days (up to and including the last trading day) average Share price are higher than the respective average premiums.

(b) Discount to the NAV per Share and premium over the NTAV per Share and the Sum-of-the-parts Value per Share

The Cancellation Price of HK\$3.70 per Scheme Share represents a discount of 28.16% to the NAV per Share of HK\$5.15 and a premium of 27.59% and 20.92% over the NTAV per Share of HK\$2.90 and the Sum-of-the-parts Value per Share of HK\$3.06, respectively. For the Privatisation Precedents, we have observed a wide range of the cancellation consideration as compared to the respective NAV ranging from a discount of 53.82% to a premium of 223.81%, with an average premium of 42.12%, which is higher than the 28.16% discount as implied by the Cancellation Price. Out of the 20 Privatisation Precedents, the cancellation consideration of 13 of them represent premiums ranging from 10.01% to 223.81% over the respective NAV per share and 7 of them represent a discount ranging from 4.00% to 53.82% to the respective NAV per share.

Comments

While the above companies involved in the Privatisation Precedents differ from the Group in terms of, for example, mix of business activities, corporate structure, size and geographical spread of assets and operations, the Privatisation Precedents provide, in our view, a reference for the Proposal in terms of premiums or discounts of their cancellation prices as compared to the then prevailing market prices and NAV per share.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The premiums offered by the Cancellation Price over the last trading day, 30, 60 and 90 trading days (up to and including the last trading day) average Share price are 37.55%, 54.81%, 56.12% and 54.17%, respectively. Those premiums are higher than the respective average premiums of the Privatisation Precedents.

The Cancellation Price of HK\$3.70 per Scheme Share represents a discount of 28.16% to the NAV per Share as at 30 June 2019 of HK\$5.15 and a premium of 27.59% over the NTAV per Share as at 30 June 2019 of HK\$2.90. The Sum-of-the-parts Value per Share provides a useful cross-check to the NAV per Share, producing a value HK\$0.16 higher than the NTAV per share. We consider that the NAV per Share might not be of immediate relevance to the Independent Shareholders but the NTAV per Share. We consider that the Sum-of-the-parts Value per Share or NTAV per Share would represent a useful and appropriate indicator of the value of the Group. The Cancellation Price represents a premium of 27.59% over the NTAV per Share and a premium of 20.92% over the Sum-of-the-parts Value per Share.

V. DISCUSSION OF THE PRINCIPAL FACTORS AND REASONS

In forming our opinion and recommendation below, we have taken into account all the factors set out under the section headed “IV. Principal factors and reasons considered” above, none of which can be considered in isolation. We would like to remind the Scheme Shareholders in particular of the points summarised below:

(a) Unsatisfactory financial performance of the Group in an evolving and rapidly changing competitive environment

The financial performance of the Group has been unsatisfactory for a number of years. Excluding one-off net gain on disposal of subsidiaries, associates and properties and remeasurement of an asset held for sale of HK\$526 million in 2016, HK\$80 million in 2017 and HK\$429 million in 2018, the net loss attributable to the Shareholders in 2016 was HK\$15 million and the net profit attributable to the Shareholders for the two years ended 31 December 2018 were HK\$722 million and HK\$391 million, respectively. While profit margins in mainland China motor and consumer products business have been under pressure, the Hong Kong motor and consumer products business have been struggling to deliver long-term growth. The motor business and non-mainland China consumer products business have been generating considerable profits. However, the mainland China consumer products business incurred significant losses since 2015 with accumulated segment losses of HK\$766 million which have dragged down the overall earnings of the Group. Having considered the above and as per our discussion with the management of the Group, with China’s economic slowdown, Sino-US trade tensions, current economic uncertainty in Hong Kong and rapid evolving consumer preferences, the outlook for the Group’s businesses remains challenging;

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(b) Cancellation Price is attractive as compared to the market prices

the Cancellation Price of HK\$3.70 per Scheme Share, which is higher than the Share price throughout the 12-month period prior to the release to the Joint Announcement, represents a 37.55% premium over the Last Trading Date of HK\$2.69 per Share. The Shares closed most of the time in the region of HK\$2.5 – HK\$3.0 per Share and fell further to its lowest of HK\$2.11 per Share on 3 September 2019 after the announcement of the Company's 2019 interim results. After the release of the Joint Announcement and up to the Latest Practicable Date, the Shares closed between HK\$3.52 per Share and HK\$3.60 per Share, with an average closing price of HK\$3.58 per Share, a price which, in our view, is supported by the Proposal. The current Share price may not be sustainable if the Proposal and the Scheme lapse;

(c) The Scheme presents a good opportunity to realise the Shares given the low trading volume

since the beginning of 2018, but before the release of the Joint Announcement, surges in trading volume were recorded in March and May 2018. The increases were due to the announcements relating to the Company's annual results for the year ended 31 December 2017 and the disposal of a property holding company. The liquidity of the Shares increased significantly in October 2019 due to the release of the Joint Announcement. For the rest of the review period, we are of the view that liquidity of the Shares was generally low. As the Shares cannot be regarded as having been actively traded, the Proposal provides an exit alternative for the Scheme Shareholders (especially those with relatively sizeable shareholdings) who are unsure of the future prospects of the Group and would like to realise their investments in the Shares at a fixed cash price without disturbing the market price;

(d) Sum-of-the-parts Value of the Group

the Cancellation Price of HK\$3.70 per Scheme Share represents a discount of 28.16% to the NAV per Share as at 30 June 2019 of HK\$5.15 and a premium of 27.59% over the NTAV per Share as at 30 June 2019 of HK\$2.90. We have carried out our own analysis to assess the value of the Shares. The business mix of the Group makes it difficult to identify a close comparable. A sum-of-the-parts valuation to assess the value of the Group, based on the recent 12-month profitability of each of the motor business and customer products business segments and their respective peers' PE Ratios, provides a useful cross-check to the Cancellation Price of HK\$3.70 per Scheme Share and the NTAV of the Group of HK\$2.90 per Share. The Sum-of-the-parts Value per Share, which is close to the NTAV per Share as at 30 June 2019, forms a crucial and valid basis for assessing the Proposal and represents 17.30% discount to the Cancellation Price;

(e) Privatisation Precedents

the premiums offered by the Cancellation Price over the last trading day, 5, 30, 60, 90 and 180 trading days (up to and including the last trading day) average Share price are

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

37.55%, 37.55%, 54.81%, 56.12%, 54.17% and 41.22%, respectively. The premiums represented by the Cancellation Price over the last trading day, 5, 30, 60, 90 and 180 trading days (up to and including the last trading day) average Share price are within the range of the respective premiums represented by the Privatisation Precedents. In addition, the premiums represented by the Cancellation Price over the last trading day, 30, 60 and 90 trading days (up to and including the last trading day) average Share price are higher than the respective average premiums. For the Privatisation Precedents, we have observed a wide range of the cancellation consideration as compared to the respective NAV ranging from a discount of 53.82% to a premium of 223.81%, with an average premium of 42.12%, which is higher than the 28.16% discount as implied by the Cancellation Price; and

(f) An attractive proposal from another source is unlikely

an alternative general offer or other proposal to acquire the Shares is unlikely as the Offeror holds over 50% of the issued share capital of the Company which has been a long-term investment held by the Offeror.

VII. OPINION AND RECOMMENDATION

Based on the above analysis, we consider the terms of the Proposal to be fair and reasonable so far as the Scheme Shareholders are concerned and advise the Independent Board Committee to recommend the Scheme Shareholders to vote in favour of the relevant resolutions to be proposed at the Court Meeting and the General Meeting to approve and implement the Proposal.

The closing Share price at the Latest Practicable Date was HK\$3.59 per Share, below the Cancellation Price of HK\$3.70 per Scheme Share. However, there is still a possibility that the Share price may exceed the Cancellation Price in the period up to 24 December 2019, being the expected last day for trading in the Shares on the Stock Exchange. Accordingly, Scheme Shareholders who wish to take advantage of the present circumstances to realise their investment in the Company are reminded to monitor the trading price and liquidity of the Shares during this period and, having regard to their own circumstances, consider selling their Shares in the open market, if the net proceeds obtained from such disposal of the Shares (after deducting all transaction costs) would be higher than HK\$3.70 per Share.

Yours faithfully,
for and on behalf of
SOMERLEY CAPITAL LIMITED
Jenny Leung
Director

Ms. Jenny Leung is a licensed person and responsible officer of Somerley registered with the SFC to carry out Type 6 (advising on corporate finance) regulated activity under the SFO and has participated in the provision of independent financial advisory services for various transactions involving companies listed in Hong Kong.

EXPLANATORY STATEMENT

This Explanatory Statement constitutes the statement required under section 671 of the Companies Ordinance.

1. INTRODUCTION

On 20 October 2019, the Offeror and the Company jointly announced that on 14 October 2019, the Offeror requested the Board to put forward to holders of the Scheme Shares the Proposal, which, if implemented, would result in the Company becoming wholly owned by the Offeror SPV Entities and the withdrawal of listing of the Shares from the Stock Exchange.

As at the Latest Practicable Date, the Offeror SPV Entities beneficially owned, controlled or had direction over 1,074,477,918 Shares, representing approximately 56.81% of the issued Shares.

The purpose of this Explanatory Statement is to explain the terms and effects of the Proposal and, specifically, to provide holders of the Scheme Shares with additional information in relation to the Scheme.

2. THE PROPOSAL

The Proposal will be implemented by way of a scheme of arrangement under section 673 of the Companies Ordinance involving the cancellation of the Scheme Shares and, in consideration therefor, the payment to the Scheme Shareholders of the Cancellation Price in cash for each Scheme Share cancelled.

Subject to the Conditions being fulfilled or waived, as applicable, the proposed privatisation of the Company will be implemented by way of the Scheme between the Company and the Scheme Shareholders.

3. THE SCHEME

The Scheme involves a reduction of the share capital of the Company by the cancellation of the Scheme Shares. Upon such reduction, the share capital of the Company will be increased to its former amount by the creation of such number of new Shares as is equal to the number of Scheme Shares cancelled. The credit arising in the Company's books of account as a result of the capital reduction will be applied in paying up in full the new Shares so allotted and issued, credited as fully paid, to the Nominee.

The Scheme provides that, in consideration of the cancellation of the Scheme Shares, the Scheme Shareholders will be entitled to receive from the Offeror:

HK\$3.70 in cash for every Scheme Share cancelled

The Offeror has advised that the Cancellation Price will not be increased and the Offeror does not reserve the right to do so.

EXPLANATORY STATEMENT

Comparison of value

The Cancellation Price of HK\$3.70 per Scheme Share represents:

- (a) a premium of approximately 37.55% over the closing price of HK\$2.69 per Share as quoted on the Stock Exchange on the Last Trading Date;
- (b) a premium of approximately 37.55% over the average closing price of approximately HK\$2.69 per Share as quoted on the Stock Exchange for the 5 trading days up to and including the Last Trading Date;
- (c) a premium of approximately 54.81% over the average closing price of approximately HK\$2.39 per Share as quoted on the Stock Exchange for the 30 trading days up to and including the Last Trading Date;
- (d) a premium of approximately 56.12% over the average closing price of approximately HK\$2.37 per Share as quoted on the Stock Exchange for the 60 trading days up to and including the Last Trading Date;
- (e) a premium of approximately 54.17% over the average closing price of approximately HK\$2.40 per Share as quoted on the Stock Exchange for the 90 trading days up to and including the Last Trading Date;
- (f) a premium of approximately 41.22% over the average closing price of approximately HK\$2.62 per Share as quoted on the Stock Exchange for the 180 trading days up to and including the Last Trading Date;
- (g) a discount of approximately 32.11% over the audited consolidated net asset value attributable to the Shareholders per Share of approximately HK\$5.45 as at 31 December 2018;
- (h) a discount of approximately 28.16% over the unaudited consolidated net asset value attributable to the Shareholders per Share of HK\$5.15 as at 30 June 2019; and
- (i) a premium of approximately 3.06% over the closing price of HK\$3.59 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

The Cancellation Price has been determined after taking into account the recently traded prices of the Shares before the publication of the Joint Announcement and publicly available financial information of the Company, and with reference to pricing premium for privatisation transactions in Hong Kong for the past 18 months.

Highest and lowest prices

During the six-month period ended on and including the Last Trading Date, the highest closing price of the Shares as quoted on the Stock Exchange was HK\$2.95 on 15 April 2019 and the lowest closing price of the Shares as quoted on the Stock Exchange was HK\$2.11 on 3 September 2019.

EXPLANATORY STATEMENT

4. TOTAL CONSIDERATION AND FINANCIAL RESOURCES

On the basis of the Cancellation Price of HK\$3.70 per Scheme Share and 816,769,302 Scheme Shares in issue as at the Latest Practicable Date, the amount of cash payable to the Scheme Shareholders under the Proposal would be approximately HK\$3,022,046,417.

The Offeror intends to finance the cash required for the Proposal through a term loan facility made available to the Offeror by Oversea-Chinese Banking Corporation Limited for the Certain Funds Period. CLSA is satisfied that sufficient financial resources are available to the Offeror for satisfying its obligations in respect of the full implementation of the Proposal.

5. CONDITIONS OF THE PROPOSAL

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

- (a) the approval of the Scheme at the Court Meeting (by way of a poll) by holders of the Scheme Shares representing at least 75% of the voting rights of such holders present and voting, in person or by proxy, at the Court Meeting, and the votes cast (by way of poll) against the Scheme at the Court Meeting not exceeding 10% of the total voting rights attached to all Disinterested Shares, provided that:
 - (i) the Scheme is approved (by way of poll) by at least 75% of the votes attaching to the Scheme Shares held by the Independent Shareholders that are cast either in person or by proxy at the Court Meeting; and
 - (ii) the number of votes cast (by way of poll) against the resolution to approve the Scheme at the Court Meeting is not more than 10% of the votes attaching to all the Scheme Shares held by the Independent Shareholders;
- (b) the passing of a special resolution(s) by a majority of at least 75% of the votes cast by the Shareholders present and voting in person or by proxy at the General Meeting (and otherwise in accordance with the procedural requirements of section 564 of the Companies Ordinance) to approve and give effect to the Scheme, including the approval of the reduction of the share capital of the Company by cancelling and extinguishing the Scheme Shares and the issue to the Nominee of such number of new Shares as is equal to the number of the Scheme Shares cancelled;
- (c) the sanction of the Scheme (with or without modification) and the confirmation of the reduction of the share capital of the Company involved in the Scheme by the High Court and the registration of a copy of the order of the High Court by the Registrar of Companies under Part 2 of the Companies Ordinance;
- (d) the compliance with the procedural requirements of sections 230 and 231 and sections 673 and 674 of the Companies Ordinance in relation to the reduction of the share capital of the Company and the Scheme, respectively;

EXPLANATORY STATEMENT

- (e) all authorisations, approvals, permissions, waivers and consents and all registrations and filings (including without limitation any which are required or desirable under or in connection with any applicable laws or regulations or any licences, permits or contractual obligations of the Company) in connection with the Proposal or its implementation in accordance with its terms having been obtained (or, as the case may be, completed) and remaining in full force and effect without modification;
- (f) 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 or proposed, and there not continuing to be outstanding, any statute, regulation, demand or order), in each case, which would make the Proposal or its implementation in accordance with its terms void, unenforceable, illegal or impracticable (or which would impose any material conditions or obligations with respect to the Proposal or its implementation in accordance with its terms);
- (g) all necessary legal or regulatory obligations in all relevant jurisdictions having been complied with and no legal or regulatory requirement having been imposed which is not expressly provided for, or is in addition to the requirements expressly provided for, in the relevant laws or regulations in connection with the Proposal or its implementation in accordance with its terms;
- (h) the implementation of the Proposal not resulting in, and no event or circumstance having occurred or arisen which would or might be expected to result in:
 - (i) any indebtedness (actual or contingent) of any member of the Group being or becoming repayable (or capable of being declared repayable) immediately or prior to its stated maturity or repayment date;
 - (ii) any agreement, arrangement, licence, permit or instrument to which any member of the Group is a party or by or to which any such member or any of its assets may be bound, entitled or subject (or any of the rights, liabilities, obligations or interests of any member of the Group thereunder) being terminated or adversely modified (or any material obligation or liability on the part of any member of the Group arising in relation thereto); or
 - (iii) the creation or enforcement of any security interest over the whole or any part of the business, property or assets of any member of the Group or any such security (whenever arising) becoming enforceable,

in each case, which is material in the context of the Group as a whole or in the context of the Proposal or its implementation in accordance with its terms; and

EXPLANATORY STATEMENT

- (i) since the date of the Joint Announcement:
 - (i) there having been no adverse change in the business, assets, financial or trading, positions, profits or prospects of any member of the Group which is material in the context of the Group taken as a whole or in the context of the Proposal; and
 - (ii) there not having been instituted, threatened in writing or remaining outstanding any litigation, arbitration, other proceedings or other dispute resolution process to which any member of the Group is a party (whether as plaintiff, defendant or otherwise) and no investigation by any government, quasi-governmental, supranational, regulatory or investigative body or court against or in respect of any such member or the business carried on by any such member having been threatened in writing, instituted or remaining outstanding, in each case, which is material in the context of the Group taken as a whole or in the context of the Proposal or its implementation in accordance with its terms.

The Offeror reserves the right to waive all or any of the Conditions (except for the Conditions in paragraphs (a) to (d), (f) and (g) above) in whole or in part. The Company does not have the right to waive any of the Conditions. All of the above Conditions will have to be fulfilled or waived, as applicable, on or before the Long Stop Date, failing which the Proposal will lapse. Pursuant to Note 2 to Rule 30.1 of the Takeovers Code, the Offeror may only invoke any or all of the Conditions as a basis for not proceeding with the Proposal if the circumstances which give rise to the right to invoke such Condition are of material significance to the Offeror in the context of the Proposal.

With reference to the Condition in paragraph (e), as at the Latest Practicable Date, the Offeror was not aware of any requirement for such authorisations, approvals, permissions, waivers, consents, registrations or filings other than those set out in the Conditions in paragraphs (a) to (d). With reference to the Condition in paragraph (f), as at the Latest Practicable Date, the Offeror was not aware of any such action, proceeding, suit, investigation, enquiry, statute, regulation, demand or order. With reference to the Condition in paragraph (g), as at the Latest Practicable Date, the Offeror was not aware of any such non-compliance or regulatory requirement other than those set out in the Conditions in paragraphs (a) to (d). With reference to the Condition in paragraph (h), as at the Latest Practicable Date, the Offeror was not aware of any such event or circumstance.

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

As at the Latest Practicable Date, there was no agreement or arrangement to which the Offeror is a party which relates to circumstances in which it may or may not invoke or seek to invoke a Condition.

If approved, the Scheme will be binding on all of the Scheme Shareholders, irrespective of whether or not they attended or voted at the Court Meeting or the General Meeting.

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Assuming that the Conditions are fulfilled or, as applicable, waived, the Scheme will become effective on the Effective Date, which is expected to be Wednesday, 8 January 2020, and the listing of the Shares on the Stock Exchange is expected to be withdrawn at 9:00 a.m. on Friday, 10 January 2020 pursuant to Rule 6.15(2) of the Listing Rules.

An announcement will be made by the Offeror and the Company in relation to the results of the Court Meeting and the General Meeting and, if all the resolutions are passed at those meetings, further announcements will be made in relation to, among other things, the results of the hearing of the petition for the sanction of the Scheme by the High Court, the Effective Date and the date of withdrawal of listing of the Shares from the Stock Exchange in accordance with the requirements of the Takeovers Code and the Listing Rules.

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

6. IRREVOCABLE UNDERTAKINGS

As at the Latest Practicable Date, none of the Offeror Concert Parties had received any irrevocable commitment to vote for or against the Proposal.

7. SHAREHOLDING STRUCTURE OF THE COMPANY AND EFFECT OF THE PROPOSAL AND THE SCHEME

As at the Latest Practicable Date, the Company had 1,891,247,220 Shares in issue.

EXPLANATORY STATEMENT

The table below sets out the shareholding structure of the Company as at the Latest Practicable Date and immediately upon the Scheme becoming effective (assuming no new Shares will be issued prior thereto).

Shareholder	As at the Latest Practicable Date		Immediately upon the Scheme becoming effective	
	<i>Number of Shares</i>	<i>Approximate % of the issued Shares</i>	<i>Number of Shares</i>	<i>Approximate % of the issued Shares</i>
(A) Offeror Concert Parties (Note (1))				
(1) Offeror SPV Entities (Note (2))	1,074,477,918	56.81	1,891,247,220 (Note (7))	100
(2) Offeror Concert Parties other than the Offeror SPV Entities (Note (3))			-	-
(i) ITOCHU (Note (4))	25,590,000	1.35	-	-
(ii) CLSA Group (Note (5))	82,400	0.00	-	-
Sub-total for (A)	1,100,150,318	58.17	1,891,247,220	100
(B) Independent Shareholders (Note (6))	791,096,902	41.83	-	-
TOTAL (A)(1) + A(2) + (B)	<u>1,891,247,220</u>	<u>100</u>	<u>1,891,247,220</u>	<u>100</u>
(C) Scheme Shareholders: (A)(2) + (B)	<u>816,769,302</u>	<u>43.19</u>	<u>-</u>	<u>-</u>

Note (1) : The Shares held by the Offeror Concert Parties will not be voted at the Court Meeting.

Note (2) : The Shares held by the Offeror SPV Entities will not form part of the Scheme Shares and will not be cancelled upon the Scheme becoming effective.

Note (3) : The Shares held by the Offeror Concert Parties other than the Offeror SPV Entities will form part of the Scheme Shares and will be cancelled upon the Scheme becoming effective, but will not be considered as “disinterested shares” under Rule 2.10 of the Takeovers Code and will not be taken into account for determining whether the requisite Shareholders’ approval has been obtained for the purposes of Rule 2.10 of the Takeovers Code.

Note (4) : Each of ITOCHU and Charoen Pokphand Group Company Limited indirectly holds 50% of the issued share capital of Chia Tai Bright Investment Company Limited, which in turn holds 20% of CITIC Limited. The Offeror is a direct wholly-owned subsidiary of CITIC Limited. ITOCHU is therefore presumed to be acting in concert with the Offeror in accordance with class 1 of the definition of “acting in concert” in the Takeovers Code.

Note (5) : CLSA is the exclusive financial adviser of the Offeror. Accordingly, CLSA and the relevant member of the CLSA Group which hold the Shares (other than as an agent on behalf of non-discretionary clients) are presumed to be acting in concert with the Offeror in accordance with class 5 of the definition of “acting in concert” in the Takeovers Code.

EXPLANATORY STATEMENT

- Note (6)* : The Shares held by the Independent Shareholders will form part of the Scheme Shares, will be cancelled upon the Scheme becoming effective, and holders of such Shares will be entitled to vote at the Court Meeting.
- Note (7)* : Upon the Scheme becoming effective, the share capital of the Company will be reduced by cancelling and extinguishing the Scheme Shares. Upon such reduction, the share capital of the Company will be increased to its former amount by the issue to the Nominee, credited as fully paid, of the same number of the Shares as the number of Scheme Shares cancelled, and the credit arising in the Company's books of account as a result of the capital reduction will be applied in paying up the new Shares so allotted and issued to the Nominee (which is a member of the Offeror SPV Entities). Upon the Scheme becoming effective, the Offeror SPV Entities will hold 100% of the issued Shares.

For the avoidance of doubt, the Scheme Shares comprise the Shares beneficially owned, controlled or directed by (i) the Offeror Concert Parties other than the members of the Offeror SPV Entities; and (ii) the Independent Shareholders.

As at the Latest Practicable Date, the Scheme Shares comprised 816,769,302 Shares, representing approximately 43.19% of the issued Shares.

As at the Latest Practicable Date, the Company had no outstanding options, warrants, derivatives or securities convertible into Shares and no relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) other than its issued Shares of 1,891,247,220 Shares.

As at the Latest Practicable Date, save as set out below, no Director beneficially owned, controlled or had direction over any Shares:

- (a) Lai Ni Hium, an executive Director, beneficially owned, controlled or had direction over 768,529 Shares, representing approximately 0.041% of the issued Shares; and
- (b) Lee Tak Wah, an executive Director, beneficially owned, controlled or had direction over 100,000 Shares, representing approximately 0.005% of the issued Shares.

All Shareholders will be entitled to vote on the special resolution(s) to be proposed at the General Meeting to approve and give effect to the reduction of capital and the implementation of the Scheme. The Offeror SPV Entities have indicated that, if the Scheme is approved at the Court Meeting, the Offeror SPV Entities will vote in favour of the special resolution(s) to be proposed at the General Meeting to approve and give effect to the reduction of share capital and implementation of the Scheme. Upon the Scheme becoming effective, the Scheme Shares will be cancelled and the Offeror SPV Entities will hold 100% of the issued Shares.

EXPLANATORY STATEMENT

8. SCHEME OF ARRANGEMENT UNDER SECTION 673 OF THE COMPANIES ORDINANCE AND THE COURT MEETING

Under section 670 of the Companies Ordinance, where an arrangement is proposed to be entered into by a company with the members, or any class of the members, of the company, the High Court may, on an application made by the company, any of the members or any member of that class, order a meeting of those members or of that class of members, as the case may be, to be summoned in any manner that the High Court directs.

Under section 673 of the Companies Ordinance, if the members or the class of members with whom the arrangement is proposed to be entered into agree or agrees to the arrangement, the High Court may, on application by the company, any of the members or any member of that class, as the case may be, sanction the arrangement. An arrangement sanctioned by the High Court as aforesaid takes effect when an office copy of the order of the High Court is registered by the Registrar of Companies, and is binding on the members or the class of members with whom the arrangement is proposed to be entered into.

The Scheme is a takeover offer under section 674 of the Companies Ordinance. Under section 674 of the Companies Ordinance, where the arrangement involves a takeover offer within the meaning of section 707 of the Companies Ordinance, the members or the class of members agree or agrees to the arrangement if, at a meeting summoned as directed by the High Court as aforesaid, members representing at least 75% of the voting rights of the members or the class of members, as the case may be, present and voting, in person or by proxy, agree to the arrangement and the votes cast against the arrangement at the meeting do not exceed 10% of the total voting rights attached to all Disinterested Shares in the company or of the class in the company, as the case may be.

9. ADDITIONAL REQUIREMENTS IMPOSED BY RULE 2.10 OF THE TAKEOVERS CODE

In addition to satisfying the requirements under the Companies Ordinance as summarised above, under Rule 2.10 of the Takeovers Code, except with the consent of the Executive, the Scheme may only be implemented if:

- (a) the Scheme is approved by the Independent Shareholders holding at least 75% of the votes attaching to the Scheme Shares held by the Independent Shareholders that are cast either in person or by proxy at the Court Meeting; and
- (b) the number of votes cast by the Independent Shareholders present and voting either in person or by way of proxy at the Court Meeting against the resolution to approve the Scheme at the Court Meeting is not more than 10% of the votes attaching to all the Scheme Shares held by all the Independent Shareholders. As at the Latest Practicable Date, the number of votes representing 10% of the votes attached to all the Scheme Shares held by all the Independent Shareholders was 79,109,690.

EXPLANATORY STATEMENT

10. BINDING EFFECT OF THE SCHEME

Notwithstanding the fact that there may be a dissenting minority, if the Scheme is approved at the Court Meeting in accordance with the requirements of section 673 of the Companies Ordinance and Rule 2.10 of the Takeovers Code and is sanctioned by the High Court and the other Conditions are either fulfilled or (to the extent permitted) waived, then the Scheme will become binding on the Company and all Shareholders.

If the Scheme becomes effective:

- (a) all the Scheme Shares will be cancelled whereupon the share capital of the Company shall be reduced and all share certificates for those Scheme Shares cancelled shall cease to have effect as evidence of title;
- (b) the share capital of the Company will then be increased to its former amount by the creation of such number of new Shares as is equal to the number of Scheme Shares cancelled;
- (c) the credit rising in the Company's books of account as a result of the said reduction of capital will be applied in paying up in full the new Shares created and such new Shares will be so allotted and issued, credited as fully paid, to the Nominee; and
- (d) the Offeror will pay the Cancellation Price of HK\$3.70 in cash to the Scheme Shareholders for each Scheme Share held by them on the Scheme Record Date.

Pursuant to Rule 2.3 of the Takeovers Code, if the Proposal is either not recommended by the Independent Board Committee or not recommended as fair and reasonable by the Independent Financial Adviser, all expenses incurred by the Company in connection with the Proposal shall be borne by the Offeror if the Scheme is not approved. Given that the Proposal is recommended by the Independent Board Committee and is recommended as fair and reasonable by the Independent Financial Adviser, 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 the Offeror will be borne by the Offeror, and other costs, charges and expenses of the Scheme and the Proposal will be shared between the Offeror and the Company equally.

11. REASONS FOR AND BENEFITS OF THE PROPOSAL

For Scheme Shareholders: to realise their investment in DCH at a significant premium

DCH's business as a distributor of motor and consumer products has been challenged on a number of fronts including intensified competition and a more sophisticated and diversified landscape. These challenges highlight structural and operational deficiencies in DCH's existing business model.

EXPLANATORY STATEMENT

For DCH to deliver long-term growth and remain competitive, re-engineering of its businesses is crucial. This will require significant investment over a number of years. Given the Shares' trading discount to the consolidated net asset value of DCH since June 2015, the listed status of DCH no longer offers a viable source of funding to develop DCH's businesses.

The implementation of the Proposal will enable CPL to provide the necessary financing and operational resource to re-engineer DCH's businesses. The process will take time to execute, carry potential execution risks and may incur significant costs.

All of these could cause volatility to DCH's financial and operational position. In addition, the performance of its Shares could be disadvantaged in a volatile market before the long-term benefits of the re-engineering are realised.

The liquidity of the Shares has been low over a prolonged period, which is approximately 0.07% of the issued Shares for the last 12 months up to and including the Last Trading Date, with an average daily trading volume of approximately 1.40 million shares per day. This low trading volume could make it difficult for the Scheme Shareholders to execute on-market disposals within any given timeframe outside of the Proposal.

CPL therefore considers that the Proposal offers the Scheme Shareholders an opportunity to realise their investment in the DCH at an attractive exit price, which is a significant premium over the prevailing share price.

The Cancellation Price of HK\$3.70 per Scheme Share represents a premium of approximately 54.81% and 41.22% over the average closing prices of HK\$2.39 and HK\$2.62 per Share for 30 and 180 consecutive trading days up to and including the Last Trading Date, respectively and a premium of 3.06% over the closing price of HK\$3.59 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

For CPL: to deliver DCH's long-term strategic value

DCH remains an important business for CPL.

With DCH operating as a private entity, CPL will have full control over its strategy and more flexibility to manage DCH's businesses.

12. THE OFFEROR'S INTENTIONS IN RELATION TO THE GROUP

The Offeror intends to continue to carry on the Group's principal business of motors and consumer products distribution.

The Offeror does not intend to introduce any major changes to the business of the Group (including any redeployment of fixed assets of the Group), save that the Offeror may, after thorough review of the Group's operations and with a view to enabling long-term growth and sustainability of the Group's businesses, restructure certain operations of the Group, particularly those which are loss-making.

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The Offeror does not intend to make any significant changes to the continued employment of the employees of the Group, save for those changes which the Offeror may from time to time implement after reviewing its strategies relating to the businesses, structure and/or direction of the Group.

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

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

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

14. INFORMATION ABOUT THE OFFEROR

The Offeror is a company incorporated in the British Virgin Islands with limited liability and is a direct wholly-owned subsidiary of CITIC Limited. The key businesses of the Offeror are special steel manufacturing, energy and real estate.

As at the Latest Practicable Date, the directors of the Offeror are Zeng Chen (Chairman and President), Liu Jifu, Kwok Man Leung, Fei Yiping, Vernon Francis Moore, Yu Yapeng, Liu Yong, Li Yajun, Luan Zhenjun and Chen Meng.

CITIC Limited is a company incorporated under the laws of Hong Kong and is listed on the main board of the Stock Exchange (stock code: 00267), the controlling shareholder of which is CITIC Group Corporation, which is a state-owned enterprise established under the laws of the People's Republic of China and holds approximately 58.13% of the issued shares in CITIC Limited.

As at the Latest Practicable Date, the directors of the CITIC Limited are Chang Zhenming (Chairman), Wang Jiong, Li Qingping, Song Kangle, Yan Shuqin, Liu Zhuyu, Peng Yanxiang, Liu Zhongyuan, Yang Xiaoping, Francis Siu Wai Keung, Xu Jinwu, Anthony Francis Neoh, Shohei Harada and Gregory Lynn Curl.

As at the Latest Practicable Date, the directors of the CITIC Group Corporation are Chang Zhenming (Chairman), Wang Jiong (Vice Chairman), Li Qingping, Song Kangle, Yan Shuqin, Liu Zhuyu, Peng Yanxiang and Wang Bin.

EXPLANATORY STATEMENT

15. INFORMATION ABOUT THE COMPANY

The Company is incorporated in Hong Kong with limited liability and is listed on the main board of the Stock Exchange. With more than 16,000 employees, the Company operates an integrated motor and consumer products distribution business across 12 Asian economies with an extensive logistics network. The Company is a leading dealer and distributor of motor vehicles and provides a full range of supporting services including maintenance, rental, repair and financing. The Company's consumer products business includes the distribution of food and fast moving consumer goods, healthcare and electronic products as well as food processing, trading and retail.

Your attention is drawn to Appendix I headed "Financial Information Relating to the Group" and Appendix II headed "General Information" to this Scheme Document.

16. WITHDRAWAL OF LISTING OF THE SHARES

Upon the Scheme becoming effective, all Scheme Shares will be cancelled (with the equivalent number of new Shares being issued as fully paid to the Nominee) and the share certificates for the Scheme Shares will thereafter cease to have effect as documents or evidence of title. In that case, the Company does not intend to maintain its listing on the Stock Exchange and will make an application for the listing of the Shares to be withdrawn from the Stock Exchange in accordance with Rule 6.15(2) of the Listing Rules, with effect from 9:00 a.m. on Friday, 10 January 2020.

Scheme Shareholders will be notified by way of an announcement of the exact dates of the last day for dealing in the Shares and the day on which the Scheme and the withdrawal of listing of the Shares on the Stock Exchange will become effective.

17. REGISTRATION AND PAYMENT

Assuming that the Scheme Record Date falls on Tuesday, 7 January 2020, it is proposed that the register of members of the Company will be closed from Tuesday, 31 December 2019 (or such other date as the Shareholders may be notified by an announcement) onwards in order to determine entitlements under the Scheme. In order to qualify for entitlements under the Scheme, holders of the Scheme Shares should ensure that the transfers of the Shares to them are lodged with the Share Registrar at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration in their names or in the names of their nominees no later than 4:30 p.m. (Hong Kong time) on Monday, 30 December 2019.

Upon the Scheme becoming effective, the Cancellation Price will be paid to the Scheme Shareholders whose names appear in the register of members of the Company on the Scheme Record Date as soon as possible but in any event within seven (7) Business Days following the Effective Date. On the basis that the Scheme becomes effective on Wednesday, 8 January 2020, the cheques for the payment of the Cancellation Price are expected to be despatched on or before Friday, 17 January 2020.

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Cheques for the payment of the Cancellation Price will be sent by ordinary post in postage pre-paid envelopes addressed to the persons entitled thereto at their respective registered addresses or, in the case of joint holders, to the registered address of that joint holder whose name then stands first in the register of members of the Company in respect of the joint holding. All such cheques will be posted at the risk of the persons entitled thereto and none of the Offeror, the Company, CLSA, the Independent Financial Adviser and the Share Registrar and their respective directors, employees, officers, agents, advisers, associates and affiliates and any other persons involved in the Proposal will be responsible for any loss or delay in transmission.

On or after the day being six (6) calendar months after the posting of such cheques, the Offeror shall have the right to cancel or countermand payment of any such cheque which has not been cashed 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 until the expiry of six (6) years from the Effective Date and shall, prior to such date, make payments therefrom of the sums payable pursuant to the Scheme to persons who satisfy the Offeror that they are respectively entitled thereto and the cheques of which they are payees have not been cashed. 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 Scheme. 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.

On the expiry of six (6) years from the Effective Date, the Offeror shall be released from any further obligation to make any payments under the Scheme and the Offeror shall be absolutely entitled to the balance (if any) of the sums then standing to the credit of the deposit account in its name, including accrued interest subject to any deduction required by law and expenses incurred.

Assuming that the Scheme becomes effective, the register of members of the Company will be updated accordingly to reflect the cancellation of all the Scheme Shares and all existing certificates for the Scheme Shares will cease to have effect as documents or evidence of title as from the Effective Date, which is expected to be on Wednesday, 8 January 2020.

Settlement of the Cancellation Price to which any Scheme Shareholder is entitled will be implemented in full in accordance with the terms of the Proposal 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 Shareholder.

18. OVERSEAS SHAREHOLDERS

This Scheme Document has been prepared for the purposes of complying with the laws of Hong Kong, the Takeovers Code and the Listing Rules and the information disclosed may not be the same as that which would have been disclosed if this Scheme Document had been prepared in accordance with the laws of jurisdictions outside Hong Kong.

EXPLANATORY STATEMENT

The making and implementation of the Proposal to holders of the Scheme Shares who are not resident in Hong Kong may be subject to the laws of the relevant jurisdictions in which such holders of the Scheme Shares are located. Such holders of the Scheme Shares should inform themselves about and observe any applicable legal, tax or regulatory requirements.

It is the responsibility of any overseas holders of the Scheme Shares wishing to take 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, the compliance with the necessary formalities and the payment of any issue, transfer or other taxes due from the Scheme Shareholders in such jurisdiction.

As at the Latest Practicable Date, there were 8 (eight) Shareholders (representing approximately 0.14% of the total number of the Shareholders) whose addresses as shown in the register of members of the Company (“**registered addresses**”) were outside Hong Kong and those Shareholders together held 358,000 Shares (representing approximately 0.019% of the issued Shares). Those 8 (eight) Shareholders included: two (2) Shareholders whose registered addresses were in Australia, one (1) Shareholder whose registered address was in Canada, one (1) Shareholder whose registered address was in the People’s Republic of China, one (1) Shareholder whose registered address was in the United Kingdom, one (1) Shareholder whose registered address was in the Macao Special Administrative Region of the People’s Republic of China and two (2) Shareholders whose registered addresses were in Singapore. The directors of the Offeror and the Directors had been advised by the local counsel in the aforementioned jurisdictions that there is no restriction or requirement under the respective laws or regulations of those jurisdictions for extending the Scheme and despatching this Scheme Document to those overseas Shareholders. The Scheme will be extended and this Scheme Document will be despatched to those overseas Shareholders.

Any acceptance by holders of the Scheme Shares will be deemed to constitute a representation and warranty from such persons to the Offeror and the Company and their respective advisers (including CLSA and the Independent Financial Adviser) that those laws and regulatory requirements have been complied with. If you are in doubt as to your position, you should consult your professional advisers.

19. TAXATION AND INDEPENDENT ADVICE

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

The Scheme Shareholders, whether in Hong Kong or in other jurisdictions, are recommended to consult their own professional advisers if they are in any doubt as to the taxation implications of the Proposal and, in particular, whether the receipt of the Cancellation Price will make them liable to taxation in Hong Kong or in other jurisdictions.

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It is emphasised that none of the Offeror, the Company, CLSA, the Independent Financial Adviser and the Share Registrar and their respective directors, employees, officers, agents, advisers, associates and affiliates and any other persons involved in the Proposal accept responsibility for any tax or other effects on, or liabilities of, any person or persons as a result of their approval or rejection, or the implementation, of the Proposal.

20. COURT MEETING AND GENERAL MEETING

The High Court has directed that the Court Meeting be convened for the purpose of considering and, if thought fit, approving the Scheme (with or without modification). The Scheme will be subject to the approval by the Independent Shareholders, whose names appear in the register of members of the Company as at the Meeting Record Date, at the Court Meeting in the manner referred to in the section headed “5. Conditions of the Proposal” above in this Explanatory Statement. The Shares beneficially owned, controlled or directed by the Offeror SPV Entities will not form part of the Scheme Shares and, as such, will not be voted at the Court Meeting. The Shares beneficially owned, controlled or directed by the Offeror Concert Parties other than the Offeror SPV Entities will form part of the Scheme Shares but will not be voted at the Court Meeting.

Immediately following the conclusion of the Court Meeting, the General Meeting will be held for the purpose of considering and, if thought fit, passing the special resolution(s) to give effect to the Scheme, including the reduction of the share capital of the Company. All Shareholders whose names appear in the register of members of the Company as at the Meeting Record Date will be entitled to attend and vote in respect of the special resolution(s) at the General Meeting. The Offeror SPV Entities have indicated that, if the Scheme is approved at the Court Meeting, the Offeror SPV Entities will vote in favour of the special resolution(s) to be proposed at the General Meeting to approve and give effect to the Scheme, including the approval of the reduction of the share capital of the Company by cancelling and extinguishing the Scheme Shares and of the issue to the Nominee of such number of new Shares as is equal to the number of the Scheme Shares cancelled and extinguished.

Notice of the Court Meeting is set out on pages 105 to 107 of this Scheme Document. The Court Meeting will be held on Thursday, 19 December 2019 at the time and place specified in the notice.

Notice of the General Meeting is set out on pages 108 to 110 of this Scheme Document. The General Meeting will be held at the same place and on the same date at 10:45 a.m. or, if later, immediately after the conclusion or adjournment of the Court Meeting.

As at the Latest Practicable Date, none of the Offeror Concert Parties had received any irrevocable commitment to vote for or against the Proposal.

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21. ACTIONS TO BE TAKEN

Actions to be taken by the Shareholders

For the purpose of determining the entitlements of holders of the Scheme Shares to attend and vote at the Court Meeting and the entitlements of the Shareholders to attend and vote at the General Meeting, the register of members of the Company will be closed from Monday, 16 December 2019 to Thursday, 19 December 2019 (both days inclusive) and during such period, no transfer of the Shares will be effected. In order to qualify to vote at the Court Meeting and the General Meeting, all transfers accompanied by the relevant share certificates must be lodged with the Share Registrar at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong before 4:30 p.m. on Friday, 13 December 2019.

A **pink** form of proxy for use at the Court Meeting and a **white** form of proxy for use at the General Meeting are enclosed with this Scheme Document. A subsequent purchaser of Scheme Shares will need to obtain a proxy form from the transferor if he or she wishes to attend or vote at the Court Meeting and/or the General Meeting.

Whether or not you are able to attend the Court Meeting and/or the General Meeting or any adjournment thereof in person, if you are a holder of the Scheme Shares, you are strongly urged to complete and sign the enclosed **pink** form of proxy in respect of the Court Meeting, and if you are a Shareholder, we strongly urge you to complete and sign the enclosed **white** form of proxy in respect of the General Meeting, in accordance with the instructions printed thereon, and to lodge them with the Share Registrar at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.

In order to be valid, the pink form of proxy for use at the Court Meeting should be lodged 48 hours before the time appointed for holding the Court Meeting or any adjournment thereof, and the white form of proxy for use at the General Meeting should be lodged 48 hours before the time appointed for holding the General Meeting or any adjournment thereof.

The completion and return of a form of proxy for the Court Meeting and/or the General Meeting will not preclude you from attending and voting in person at the relevant meeting or any adjournment thereof, should you so wish. In the event that you attend and vote at the relevant meeting or any adjournment thereof after having lodged your form(s) of proxy, the returned form(s) of proxy will be deemed to have been revoked.

If you do not appoint a proxy and you do not attend and vote at the Court Meeting and/or the General Meeting, you will still be bound by the outcome of the Court Meeting and/or the General Meeting. You are therefore strongly urged to attend and vote at the Court Meeting and/or the General Meeting in person or by proxy.

Voting at the Court Meeting and the General Meeting will be taken by poll as required under the Listing Rules and the Takeovers Code.

EXPLANATORY STATEMENT

The Company and the Offeror will make an announcement in relation to the results of the Court Meeting and the General Meeting and, if all the resolutions are passed at those meetings, further announcements will be made in relation to, among other things, the results of the hearing of the petition for the sanction of the Scheme by the High Court, the Effective Date and the date of withdrawal of listing of the Shares from the Stock Exchange in accordance with the requirements of the Takeovers Code and the Listing Rules.

Actions to be taken by Beneficial Owners whose Shares are held by a Registered Owner or deposited in CCASS

No person shall be recognised by the Company as holding any Shares on trust.

If you are a Beneficial Owner whose Shares are registered in the name of a nominee, trustee, depositary or any other authorised custodian or third party, you should contact such Registered Owner to give instructions to and/or to make arrangements with such Registered Owner as to the manner in which the Shares beneficially owned by you should be voted at the Court Meeting and/or the General Meeting.

If you are a Beneficial Owner who wishes to attend the Court Meeting and/or the General Meeting personally, you should:

- (a) contact the Registered Owner directly to make the appropriate arrangements with the Registered Owner to enable you to attend and vote at the Court Meeting and/or the General Meeting and, for such purpose, the Registered Owner may appoint you as its proxy; or
- (b) arrange for some or all of the Shares registered in the name of the Registered Owner to be transferred into your own name.

Instructions to and/or arrangements with the Registered Owner should be given or made in advance of the relevant latest time for the lodgement of form(s) of proxy in respect of the Court Meeting and/or the General Meeting, or, as applicable, the latest time for lodging transfers of Shares, in order to provide the Registered Owner with sufficient time to complete his/her/its form(s) of proxy or transfer documents accurately and to submit them by the relevant deadlines.

The appointment of a proxy by the Registered Owner at the Court Meeting and/or the General Meeting shall be in accordance with all relevant provisions in the articles of association of the Company.

In the case of the appointment of a proxy by the Registered Owner, the relevant forms of proxy shall be completed and signed by the Registered Owner and shall be lodged in the manner and no later than the latest time for lodging the relevant forms of proxy as more particularly set out in this Scheme Document.

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The completion and return of a form of proxy for the Court Meeting and/or the General Meeting will not preclude the Registered Owner from attending and voting in person at the relevant meeting or any adjournment thereof if the Registered Owner should so wish. In the event that the Registered Owner attends and votes at the relevant meeting or any adjournment thereof after having lodged his/her/its form(s) of proxy, the returned form(s) of proxy will be deemed to have been revoked.

If you are a Beneficial Owner whose Shares are deposited in CCASS and registered under the name of HKSCC Nominees, you must, unless you are an Investor Participant:

- (a) contact your broker, custodian, nominee or other relevant person who is, or has, in turn, deposited such Shares with, a CCASS participant regarding voting instructions to be given to such persons; or
- (b) arrange for some or all of such Shares to be withdrawn from CCASS and transferred into your own name, if you wish to vote (in person or by proxy) at the Court Meeting and/or the General Meeting.

The procedure for voting in respect of the Scheme by the Investor Participants and the Other CCASS Participants with respect to the Shares registered under the name of HKSCC Nominees shall be in accordance with the "General Rules of CCASS" and the "CCASS Operational Procedures" in effect from time to time.

You should contact your broker, custodian, nominee or other relevant person in advance of the latest time for the lodgement of forms of proxy in respect of the Court Meeting and/or the General Meeting, in order to provide such person with sufficient time to provide HKSCC Nominees with instructions or make arrangements with HKSCC Nominees in relation to the manner in which the Shares should be voted at the Court Meeting and/or the General Meeting.

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

EXPLANATORY STATEMENT

22. EXERCISE YOUR RIGHT TO VOTE

IF YOU ARE A SHAREHOLDER OR A BENEFICIAL OWNER, THE OFFEROR AND THE COMPANY STRONGLY ENCOURAGE YOU TO EXERCISE YOUR RIGHT TO VOTE OR GIVE INSTRUCTIONS TO THE RELEVANT REGISTERED OWNER TO VOTE IN PERSON OR BY PROXY AT THE COURT MEETING AND AT THE GENERAL MEETING.

IF YOU ARE A BENEFICIAL OWNER WHOSE SHARES ARE DEPOSITED IN CCASS, YOU ARE ENCOURAGED TO PROVIDE HKSCC NOMINEES WITH INSTRUCTIONS OR MAKE ARRANGEMENTS WITH HKSCC NOMINEES IN RELATION TO THE MANNER IN WHICH THOSE SHARES SHOULD BE VOTED AT THE COURT MEETING AND/OR THE GENERAL MEETING WITHOUT DELAY AND/OR HAVE THE SHARES WITHDRAWN AND REGISTERED IN YOUR NAME (AS DETAILED ABOVE).

IF YOU KEEP ANY SHARES IN A SHARE LENDING PROGRAMME, THE OFFEROR AND THE COMPANY URGE YOU TO RECALL ANY OUTSTANDING SHARES ON LOAN TO AVOID MARKET PARTICIPANTS USING BORROWED STOCK TO VOTE.

IF YOU ARE A REGISTERED OWNER HOLDING THE SHARES ON BEHALF OF BENEFICIAL OWNERS, THE OFFEROR AND THE COMPANY WOULD BE GRATEFUL IF YOU WOULD INFORM THE RELEVANT BENEFICIAL OWNERS ABOUT THE IMPORTANCE OF EXERCISING THEIR RIGHT TO VOTE.

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

23. FURTHER INFORMATION

Further information in relation to the Proposal is set out in the appendices to this Scheme Document, all of which form part of this Explanatory Statement.

Shareholders and Scheme Shareholders should rely only on the information contained in this Scheme Document. None of the Company, the Offeror, CLSA, the Independent Financial Adviser and the Share Registrar and their respective directors, employees, officers, agents, advisers, associates and affiliates and any other persons involved in the Proposal have authorised anyone to provide you with information that is different from what is contained in this Scheme Document.

24. LANGUAGE

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

1. FINANCIAL SUMMARY

Set out below is a summary of the consolidated financial information of the Group for each of the three (3) years ended 31 December 2016, 31 December 2017 and 31 December 2018 and for the six (6) months ended 30 June 2019. The figures for the years ended 31 December 2016, 31 December 2017 and 31 December 2018 are extracted from the annual reports of the Company for the years ended 31 December 2016, 31 December 2017 and 31 December 2018, and the figures for the six (6) months ended 30 June 2019 are extracted from the interim report of the Company for the six months ended 30 June 2019.

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

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

Set out below is a summary of Consolidated Statement of Profit or Loss and Other Comprehensive Income of which are included the material items of income or expenses for each of the three years ended 31 December 2016, 31 December 2017 and 31 December 2018 and the six months ended 30 June 2019.

HK\$ million	Year ended 31 December			Six month ended 30 June
	2018 (Audited)	2017 (Audited)	2016 (Audited)	2019 (Unaudited)
Revenue (Note)	50,878	51,238	46,462	23,821
Cost of sales	<u>(43,953)</u>	<u>(44,312)</u>	<u>(41,001)</u>	<u>(20,494)</u>
Gross profit	6,925	6,926	5,461	3,327
Other net income	260	270	790	133
Net gain on disposal of subsidiaries	412	16	249	3
Net gain on disposal of an associate	–	–	89	–
Net gain on disposal of properties held for own use	17	64	–	–
Selling and distribution expenses	(3,874)	(3,908)	(3,416)	(1,837)
Administrative expenses	<u>(2,198)</u>	<u>(1,918)</u>	<u>(2,105)</u>	<u>(1,005)</u>
Profit from operations	1,542	1,450	1,068	621
Net gain on remeasurement of an investment property reclassified as asset held for sale	–	–	188	–
Finance costs	(230)	(193)	(189)	(195)
Share of profit after tax of associates	6	14	11	9
Share of profit after tax of joint ventures	<u>9</u>	<u>21</u>	<u>19</u>	<u>12</u>

APPENDIX I

FINANCIAL INFORMATION RELATING TO THE GROUP

<i>HK\$ million</i>	Year ended 31 December			Six month ended
	2018 (Audited)	2017 (Audited)	2016 (Audited)	30 June 2019 (Unaudited)
Profit before taxation	1,327	1,292	1,097	447
Income tax	(380)	(354)	(465)	(183)
Profit for the year/period	<u>947</u>	<u>938</u>	<u>632</u>	<u>264</u>
Attributable to:				
Shareholders of the Company	820	802	511	188
Non-controlling interests	127	136	121	76
	<u>947</u>	<u>938</u>	<u>632</u>	<u>264</u>
Basic and diluted earnings per share (HK cents)	<u>44.10</u>	<u>43.71</u>	<u>27.89</u>	<u>9.97</u>
Profit for the year/period	947	938	632	264
<i>Items that may be reclassified subsequently to profit or loss</i>				
Exchange differences on translation of financial statements of entities outside Hong Kong:				
– subsidiaries	(467)	722	(651)	(28)
– associates and joint ventures	(27)	25	(31)	(3)
Effect on cash flow hedge, net of tax	(9)	12	(9)	(25)
Reserves released upon disposal of subsidiaries	14	3	11	(1)
Reserves released upon disposal of an associate	–	–	(6)	–
<i>Items that will not be reclassified subsequently to profit or loss</i>				
Financial assets at fair value through other comprehensive income	–	–	–	(27)
Revaluation gain recognised upon transfer from property held for own use and lease prepayments to investment property, net of tax	–	1	11	–

HK\$ million	Year ended 31 December			Six month ended
	2018 (Audited)	2017 (Audited)	2016 (Audited)	30 June 2019 (Unaudited)
Other comprehensive income for the year/period, net of tax	<u>(489)</u>	<u>763</u>	<u>(675)</u>	<u>(84)</u>
Total comprehensive income for the year/period	<u>458</u>	<u>1,701</u>	<u>(43)</u>	<u>180</u>
Attributable to:				
– Shareholders of the Company	372	1,521	(121)	112
– Non-controlling interests	<u>86</u>	<u>180</u>	<u>78</u>	<u>68</u>
	<u>458</u>	<u>1,701</u>	<u>(43)</u>	<u>180</u>
Total dividends declared	<u>327</u>	<u>313</u>	<u>155</u>	<u>80</u>
Dividends per share (HK cents)	<u>17.43</u>	<u>16.95</u>	<u>8.44</u>	<u>4.23</u>

Note:

The Group has initially applied Hong Kong Financial Reporting Standard 15 “Revenue from contracts with customers” using the cumulative effect transition method since the year ended 31 December 2018. Under this method, the comparative information is not restated and was prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 18 “Revenue” and HKAS 11 “Construction contracts”.

As the Group has expanded its principal activities to cover the businesses of hire purchase and insurance agency, the handling and service charge income and commission income from these businesses for the year ended 31 December 2018 are reclassified under “Revenue”. Comparative figures for the year ended 31 December 2017 of such income totaling HK\$732 million have been reclassified from “Other net income” to “Revenue” to conform to 2018’s presentation. The figures for the year ended 31 December 2016 were not reclassified to this effect.

2. CONSOLIDATED FINANCIAL STATEMENTS

The audited consolidated financial statements of the Group for the year ended 31 December 2016 (the “**2016 Financial Statements**”), 31 December 2017 (the “**2017 Financial Statements**”), 31 December 2018 (the “**2018 Financial Statements**”) and the unaudited condensed interim financial statements of the Group for the six (6) months ended 30 June 2019 (the “**2019 Interim Financial Statements**”) are available on the websites below:

- (a) The 2016 Financial Statements are set out on pages 89 to 172 of the Annual Report 2016 of the Company, which was published on 29 March 2017. The Annual Report 2016 is posted on the Company’s website <http://www.dch.com.hk> and the website of the Stock Exchange at <http://www.hkexnews.com.hk>. Please also see below a direct link to the Annual Report 2016:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2017/0329/ltn20170329480.pdf>

- (b) The 2017 Financial Statements are set out on pages 104 to 192 of the Annual Report 2017 of the Company, which was published on 28 March 2018. The Annual Report 2017 is posted on the Company's website <http://www.dch.com.hk> and the website of the Stock Exchange at <http://www.hkexnews.com.hk>. Please also see below a direct link to the Annual Report 2017:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2018/0328/ltn20180328674.pdf>

- (c) The 2018 Financial Statements are set out on pages 96 to 207 of the Annual Report 2018 of the Company, which was published on 28 March 2019. The Annual Report 2018 is posted on the Company's website <http://www.dch.com.hk> and the website of the Stock Exchange at <http://www.hkexnews.com.hk>. Please also see below a direct link to the Annual Report 2018:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0328/ltn20190328650.pdf>

- (d) The 2019 Interim Financial Statements are set out on pages 21 to 55 in the Interim Report 2019 of the Company, which was published on 17 September 2019. The Interim Report 2019 is posted on the Company's website <http://www.dch.com.hk> and the website of the Stock Exchange at <http://www.hkexnews.com.hk>. Please also see below a direct link to the Interim Report 2019:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0917/ltn20190917069.pdf>

The 2016 Financial Statements, the 2017 Financial Statements, the 2018 Financial Statements and the 2019 Interim Financial Statements (but not any other part of the Annual Report 2016, the Annual Report 2017, the Annual Report 2018 and Interim Report 2019 in which they respectively appear) are incorporated by reference into this Scheme Document and form part of this Scheme Document.

3. STATEMENT OF INDEBTEDNESS AND CONTINGENT LIABILITIES

As at the close of business on 30 September 2019, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this Scheme Document, the bank and other borrowings, pledges, lease liabilities and contingent liabilities of the Group were shown as below:

	<i>HK\$ million</i>
Bank and other borrowings	
Unsecured and unguaranteed bank loans	7,848
Secured and unguaranteed other loans	262
Unsecured and unguaranteed bank overdrafts	103
Amounts due to holders of non-controlling interest (<i>Note</i>)	374
Amounts due to associates (<i>Note</i>)	53
Pledges	
Inventories	224
Bank deposits	54
Debtors and other current assets	63
Lease liabilities	3,662
Contingent liabilities	

As at 30 September 2019, the Group had the following contingent liabilities:

- a) the Group has issued guarantees to bank in respect of banking facilities of HK\$59.3 million granted to and utilised by an associate of HK\$29.5 million; and
- b) the Group has issued a guarantee of EUR1.2 million (equivalent to HK\$10.3 million) to a trade creditor of an associate.

Note: The amounts due to holders of non-controlling interest and associates were unsecured, unguaranteed, non-interest bearing and repayable on demand, except for the amounts due to holders of non-controlling interest of HK\$24.1 million and HK\$22.2 million which were interest bearing at 2.0% per annum and at 0.15% per month respectively, and of HK\$113.0 million which were repayable after one year.

Save as aforesaid and apart from intra-group liabilities, intra-group guarantees, and normal trade payables, the Group did not, as at 30 September 2019, have any material outstanding (i) debt securities, whether issued and outstanding, authorised or otherwise created but unissued, or term loans, whether guaranteed, unguaranteed, secured (whether the security is provided by the Group or by third parties) or unsecured; (ii) other borrowings or indebtedness in the nature of borrowings including bank overdrafts and liabilities under acceptances (other than normal trade bills) or acceptance credits or hire purchase commitments, whether guaranteed, unguaranteed, secured or unsecured; (iii) mortgage or charges; or (iv) guarantees or other contingent liabilities.

4. MATERIAL CHANGE

The Directors confirm that, save for the following matter, there has been no material change in the financial or trading position or outlook of the Group subsequent to 31 December 2018, the date to which the latest audited consolidated financial statements of the Company were made up, up to and including the Latest Practicable Date:

As set out in the Company's interim report for the six months ended 30 June 2019, the Company recorded a net profit attributable to Shareholders of approximately HK\$188 million, representing (i) 22.9% of the net profit attributable to Shareholder of approximately HK\$820 million for the year ended 31 December 2018; and (ii) a decrease of 31.6% as compared with a net profit attributable to Shareholder of approximately HK\$275 million for the six months ended 30 June 2018. The low proportion in (i) was primarily due to net gain on disposal of subsidiaries of HK\$412 million in 2018 as compared with HK\$3 million for the six months ended 30 June 2019. The decrease in (ii) was primarily due to margin pressure in the motor business as the Company adopted a strategy to maintain market share amidst intensified competition driven by slowing economic growth, reduced demand and changing emissions policies.

1. RESPONSIBILITY STATEMENT

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

The issue of this Scheme Document has been approved by the directors of the Offeror, who jointly and severally accept full responsibility for the accuracy of the information contained in this Scheme Document (other than any 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 Group) 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 statements in this Scheme Document misleading.

The issue of this Scheme Document has been approved by the Directors, who jointly and severally accept full responsibility for the accuracy of the information contained in this Scheme Document (other than any information relating to the Offeror) 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 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 statements in this Scheme Document misleading.

2. SHARE CAPITAL OF THE COMPANY

- (a) As at the Latest Practicable Date, the Company had 1,891,247,220 Shares in issue.
- (b) All of the Shares currently in issue rank *pari passu* in all respects including as to capital, dividends and voting.
- (c) As at the Latest Practicable Date, except for 5,223,395 Shares which were issued by the Company on 16 July 2019 to the Shareholders who had exercised their option to receive an allotment of Shares credited as fully paid in lieu of cash dividend for the year ended 31 December 2018, no new Shares had been issued by the Company since 31 December 2018 (being the end of the last financial year of the Company).
- (d) As at the Latest Practicable Date, there were no outstanding options, warrants or conversion rights affecting the Shares.

3. MARKET PRICES

- (a) The table below shows the closing market prices of the Shares as quoted on the Stock Exchange (i) on the Latest Practicable Date; (ii) on the Last Trading Date and (iii) at the end of each month during the Relevant Period:

Date	Closing price per Share HK\$
(i) 29 November 2019, being the Latest Practicable Date	3.59
(ii) 14 October 2019, being the Last Trading Date	2.69
(iii) at the end of each calendar month during the Relevant Period:	
(A) 30 April 2019	2.87
(B) 31 May 2019	2.41
(C) 28 June 2019	2.61
(D) 31 July 2019	2.50
(E) 30 August 2019	2.19
(F) 30 September 2019	2.48
(G) 31 October 2019	3.58

- (b) During the Relevant Period, the highest closing price of the Shares was HK\$2.95 per Share as quoted on the Stock Exchange on 15 April 2019 and the lowest closing price of the Shares was HK\$2.11 per Share as quoted on the Stock Exchange on 3 September 2019.
- (c) The Cancellation Price of HK\$3.70 per Scheme Share represents a premium of approximately 37.55% over the closing price of HK\$2.69 per Share as quoted on the Stock Exchange on the Last Trading Date.

4. DISCLOSURE OF INTERESTS IN THE SHARES

As at the Latest Practicable Date:

- (a) save as disclosed below, none of the Directors were interested within the meaning of Part XV of the SFO in any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares:

Director	Number of Shares interested	Approximate % of the issued Shares
Lai Ni Hium	768,529	0.041
Lee Tak Wah	100,000	0.005

- (b) Lai Ni Hium and Lee Tak Wah, who are executive Directors and were interested in 768,529 Shares and 100,000 Shares respectively, intend to vote in favour of the Proposal in respect of their respective own beneficial shareholding. Save for Lai Ni Hium and Lee Tak Wah, none of the Directors were interested in any Shares as at the Latest Practicable Date;
- (c) no subsidiary of the Company, no pension fund of the Company or of a subsidiary of the Company and no person who is presumed to be acting in concert with the Company by virtue of class (5) of the definition of “acting in concert” under the Takeovers Code or who is an associate of the Company by virtue of class (2) of the definition of “associate” under the Takeovers Code (but excluding any exempt principal traders and exempt fund managers) owned or controlled any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares;
- (d) there was no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code which existed between the Company, or any person who is presumed to be acting in concert with the Company by virtue of classes (1), (2), (3) or (5) of the definition of “acting in concert” under the Takeovers Code or who is an associate of the Company by virtue of classes (2), (3) and (4) of the definition of “associate” under the Takeovers Code, and any other person;
- (e) no fund manager (other than exempt fund managers) connected with the Company managed any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares on a discretionary basis;
- (f) neither the Company nor any Directors had borrowed or lent any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares;

- (g) save as disclosed below, the Offeror SPV Entities did not own or control any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares:

Shareholder	Number of Shares	Approximate % of the issued Shares
Offeror SPV Entities	1,074,477,918	56.81

- (h) none of the directors of the Offeror were interested within the meaning of Part XV of the SFO in any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares;

- (i) save as disclosed below, none of the Offeror Concert Parties beneficially owned, controlled or had direction over any Shares or any convertible securities, warrants, options or derivatives in respect of Shares:

Shareholder	Number of Shares	Approximate % of the issued Shares
Offeror SPV Entities	1,074,477,918	56.81
Offeror Concert Parties other than the Offeror SPV Entities		
(1) ITOCHU	25,590,000	1.35
(2) CLSA Group	82,400	0.00
Total:	<u>1,100,150,318</u>	<u>58.17</u>

- (j) none of the Offeror Concert Parties had received any irrevocable commitment to vote for or against the Proposal;

- (k) no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code existed between any person and the Offeror or any of the Offeror Concert Parties;

- (l) none of the Offeror Concert Parties had borrowed or lent any Shares or any convertible securities, warrants, options or derivatives in respect of Shares; and

- (m) there was no understanding, arrangement or agreement which constituted special deal (as defined under Rule 25 of the Takeovers Code) between the Company, its subsidiaries or associated companies on one hand and the Shareholders on the other hand.

5. DEALINGS IN THE SHARES

- (a) During the Relevant Period,
- (i) except that Lai Ni Hium had exercised his option to receive an allotment of Shares credited as fully paid in lieu of cash dividend for the year ended 31 December 2018 as a result of which the Company issued 27,601 Shares to him on 16 July 2019, no Director had dealt for value in any Shares or any convertible securities, warrants, options or derivatives in respect of Shares;
 - (ii) none of the Offeror, the directors of the Offeror or the Offeror Concert Parties (except the CLSA Group) had dealt for value in any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares;
 - (iii) none of the members of the CLSA Group had dealt for value in any Shares or any convertible securities, warrants, options or derivative in respect of any Shares other than for the account of non-discretionary clients; and
 - (iv) no person who had an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Offeror or any of the Offeror Concert Parties had dealt for value in Shares or any convertible securities, warrants, options or derivatives in respect of any Shares.
- (b) During the period commencing on 20 October 2019 (being the date of the Joint Announcement) and ending on the Latest Practicable Date,
- (i) no subsidiary of the Company, no pension fund of the Company or of a subsidiary of the Company and no person who is presumed to be acting in concert with the Company by virtue of class (5) of the definition of “acting in concert” under the Takeovers Code or who is an associate of the Company by virtue of class (2) of the definition of “associate” under the Takeovers Code (but excluding any exempt principal traders and exempt fund managers) had dealt for value in any Shares or any convertible securities, warrants, options or derivatives in respect of any 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 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” under the Takeovers Code or who is an associate of the Company by virtue of classes (2), (3) and (4) of the definition of “associate” under the Takeovers Code had dealt for value in any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares; and

- (iii) no fund manager (other than exempt fund managers) connected with the Company who managed any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares on a discretionary basis had dealt for value in any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares.

6. DISCLOSURE OF INTERESTS IN THE OFFEROR'S SHARES

As at the Latest Practicable Date, none of the Company nor the Directors were interested in any shares of the Offeror or any convertible securities, warrants, options or derivatives in respect of any shares of the Offeror.

7. DEALINGS IN OFFEROR'S SHARES

During the Relevant Period, neither the Company nor any Directors had dealt for value in any shares of the Offeror or any convertible securities, warrants, options or derivatives in respect of any shares of the Offeror.

8. ARRANGEMENTS IN CONNECTION WITH THE PROPOSAL

As at the Latest Practicable Date:

- (a) there was no agreement, arrangement or understanding between the Offeror and any other person in relation to the transfer, charge or pledge of the Shares to be acquired pursuant to the Proposal and the Offeror had no intention to transfer, charge or pledge any Shares acquired pursuant to the Proposal to any other person;
- (b) there was no agreement, arrangement or understanding (including any compensation arrangement) existing between the Offeror or any of the Offeror Concert Parties and any Director, recent Director, the Shareholders or recent Shareholders having any connection with or being dependent upon the Proposal; and
- (c) there was no agreement or arrangement to which the Offeror is a party which relates to circumstances in which it may or may not invoke or seek to invoke a condition to the Proposal.

9. ARRANGEMENTS AFFECTING THE DIRECTORS

As at the Latest Practicable Date:

- (a) no benefit (other than statutory compensation required under appropriate laws) would be given to any Director as compensation for loss of office or otherwise in connection with the Proposal;

- (b) there were no agreements or arrangements between any Director and any other person which are conditional on or dependent upon the outcome of the Proposal or otherwise connected with the Proposal; and
- (c) there were no material contracts entered into by the Offeror in which any Director has a material personal interest.

10. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into any service contract with the Company or any of its subsidiaries or associated companies (i) which (including both continuous and fixed term contracts) had been entered into or amended within the Relevant Period; (ii) which were continuous contracts with a notice period of 12 months or more; or (iii) which were fixed term contracts with more than 12 months to run irrespective of the notice period.

11. LITIGATION

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

12. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the Group within two years immediately preceding 20 October 2019, being the date of the Joint Announcement:

- (a) a subscription agreement dated 23 October 2017 entered into between DCH Tamar LP 1 Limited ("**DCH LP**", an indirect wholly-owned subsidiary of the Company) and the Tamar Alliance GP 1 Limited, on behalf of Tamar Alliance Partners Fund I, L.P. (the "**Tamar Alliance Fund**"), pursuant to which DCH LP as a limited partner of Tamar Alliance Fund has agreed to make a capital commitment of US\$35 million to Tamar Alliance Fund;
- (b) a shareholders' agreement dated 23 October 2017 entered into DCH Tamar Holding Limited ("**DCH Holdco**", an indirect wholly-owned subsidiary of the Company), City Victory Company Limited ("**CP Holdco**", an indirect wholly-owned subsidiary of the Offeror) and Tamar Alliance Holdings Limited ("**GP Holdco**"), whereby each of DCH Holdco and CP Holdco undertook to provide to the GP Holdco capital or financing of up to US\$5 million on a 50:50 basis; and

- (c) a sale and purchase agreement dated 17 August 2018 entered into between DCH Property Limited as vendor, Land Acumen Limited as purchaser and Sing Wo Chong Investment Company, Limited as company in relation to the disposal of the entire issued share capital of Sing Wo Chong Investment Company, Limited, a wholly-owned subsidiary of the Company, at a consideration of HK\$421 million.

13. PROFESSIONAL ADVISERS AND CONSENTS

The following is the qualification of the expert which has given advice which is contained in this Scheme Document:

Name	Qualification
Sommerley	a corporation licensed to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activity under the SFO

Sommerley has given and has not withdrawn its written consent to the issue of this Scheme Document with the inclusion therein of its letter of advice and with references to its name and/or letter of advice in the form and context in which they respectively appear.

CLSA has given and has not withdrawn its written consent to the issue of this Scheme Document with the references to its name in the form and context in which it respectively appears.

14. NON-STATUTORY ACCOUNTS OF THE GROUP

The financial information of the Group relating to the years ended 31 December 2016, 31 December 2017 and 31 December 2018 that is disclosed in this Scheme Document does not constitute the Group's statutory annual consolidated financial statements for those years but was derived from those financial statements. Further information relating to the Group's statutory annual consolidated financial statements for the years ended 31 December 2016, 31 December 2017 and 31 December 2018, required to be disclosed in accordance with section 436 of the Companies Ordinance is as follows:

The statutory annual consolidated financial statements of the Group for the years ended 31 December 2016, 31 December 2017 and 31 December 2018 have been delivered to the Registrar of Companies in Hong Kong in accordance with section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance. An auditor's report has been prepared on each of those financial statements. The auditor's reports were not qualified or otherwise modified, did not refer to any matter to which the auditor drew attention by way of emphasis without qualifying the report and did not contain a statement under section 406(2) or 407(2) or (3) of the Companies Ordinance.

15. MISCELLANEOUS

- (a) The registered office of the Offeror is at Kingston Chambers, P. O. Box 173, Road Town, Tortola, British Virgin Islands.
- (b) The registered office of the principal member of the Offeror Concert Parties being the Offeror itself, is at Kingston Chambers, P. O. Box 173, Road Town, Tortola, British Virgin Islands.
- (c) The registered office of the Company is at 8th Floor, DCH Building, 20 Kai Cheung Road, Kowloon Bay, Hong Kong.
- (d) The registered office of CLSA is at 18/F, One Pacific Place, 88 Queensway, Hong Kong.

16. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection from the date of this Scheme Document until the Effective Date or the date on which the Scheme lapses or is withdrawn, whichever is the earlier (1) at the registered office of the Company at 8th Floor, DCH Building, 20 Kai Cheung Road, Kowloon Bay, Hong Kong during normal business hours from 9:00 a.m. to 5:00 p.m. (except Saturdays, Sundays and public holidays in Hong Kong) (Hong Kong time), (2) on the website of the Company at <http://www.dch.com.hk>, and (3) on the website of the SFC at <http://www.sfc.hk>:

- (a) the articles of association of the Offeror;
- (b) the articles of association of the Company;
- (c) the annual reports of the Company for each of the years ended 31 December 2017 and 31 December 2018;
- (d) the interim report of the Company for the six (6) months ended 30 June 2019;
- (e) the letter from the Board, the text of which is set out on pages 14 to 22 of this Scheme Document;
- (f) the letter from the Independent Board Committee, the text of which is set out on pages 23 to 24 of this Scheme Document;
- (g) the letter from the Independent Financial Adviser, the text of which is set out on pages 25 to 61 of this Scheme Document;
- (h) the written consents referred to in the section headed "13. Professional Advisers and Consents" in Appendix II — General Information;
- (i) the material contracts referred to in the section headed "12. Material Contracts" in Appendix II — General Information; and
- (j) this Scheme Document.

THE SCHEME

HCMP No. 2123 of 2019

**IN THE HIGH COURT OF THE
HONG KONG SPECIAL ADMINISTRATIVE REGION
COURT OF FIRST INSTANCE
MISCELLANEOUS PROCEEDINGS NO. 2123 OF 2019**

**IN THE MATTER OF
DAH CHONG HONG HOLDINGS LIMITED
大昌行集團有限公司**

AND

**IN THE MATTER OF
THE COMPANIES ORDINANCE,
CHAPTER 622 OF THE LAWS OF THE HONG KONG SPECIAL
ADMINISTRATIVE REGION**

**SCHEME OF ARRANGEMENT
Under Section 673 of the Companies Ordinance
Chapter 622 of the Laws of the Hong Kong Special Administrative Region**

PRELIMINARY

(A) In this Scheme, unless inconsistent with the subject or context, the following expressions shall bear the following meanings:

acting in concert	has the meaning ascribed to it in the Takeovers Code, and “persons acting in concert” and “concert parties” shall be construed accordingly
Cancellation Price	the cancellation price of HK\$3.70 per Scheme Share cancelled, payable in cash by the Offeror to the Scheme Shareholders pursuant to the Scheme
CLSA	CLSA Capital Markets Limited, a company incorporated in Hong Kong with limited liability and licensed under the SFO to carry on Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities, and the exclusive financial adviser to the Offeror in connection with the Proposal
CLSA Group	CLSA and persons controlling, controlled by or under the same control as CLSA
Companies Ordinance	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)

THE SCHEME

Company	Dah Chong Hong Holdings Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the main board of the Stock Exchange (stock code: 01828)
Effective Date	the date on which the Scheme becomes effective pursuant to paragraph 5 of this Scheme
Executive	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
Explanatory Statement	the explanatory statement in relation to the Scheme, the text of which is set out on pages 62 to 81 of the Scheme Document
High Court	the High Court of Hong Kong
HKSCC Nominees	HKSCC Nominees Limited
HK\$	Hong Kong dollars, the lawful currency of Hong Kong
Hong Kong	the Hong Kong Special Administrative Region of the People's Republic of China
Independent Board Committee	an independent board committee of the directors of the Company comprising Chan Kay Cheung, Chan Hui Dor Lam, Doreen, Woo Chin Wan, Raymond, Zhang Lijun and Cheng Jinglei, all being the independent non-executive directors of the Company
Independent Financial Adviser	Somerley Capital Limited, a corporation licensed to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser to the Independent Board Committee
Independent Shareholders	the Shareholders other than the Offeror Concert Parties
ITOCHU	ITOCHU Corporation, a company incorporated under the laws of Japan with limited liability, the shares of which are listed on the Tokyo Stock Exchange (stock code: 8001)

THE SCHEME

Latest Practicable Date	29 November 2019, being the latest practicable date prior to the date of the Scheme Document for the purpose of ascertaining certain information contained in the Scheme Document
Long Stop Date	means 31 March 2020 or such other date as may be agreed between the Offeror and the Company or, to the extent applicable, as the Executive may consent and the High Court may direct
Nominee	Giant Path Limited, a company incorporated in the British Virgin Islands with limited liability, which is an indirect wholly-owned subsidiary of the Offeror
Offeror	CITIC Pacific Limited, a company incorporated in the British Virgin Islands with limited liability and a registered non-Hong Kong company under the Companies Ordinance
Offeror Concert Parties	the Offeror and persons acting in concert with the Offeror (including but not limited to (i) the Offeror SPV Entities; (ii) the Offeror group of companies; (iii) the CLSA Group; (iv) CITIC Group Corporation and its subsidiaries (including CITIC Limited); (v) ITOCHU; and (vi) Charoen Pokphand Group Company Limited (for (v) and (vi), they are presumed to be acting in concert with the Offeror in accordance with class 1 of the definition of “acting in concert” in the Takeovers Code))
Offeror SPV Entities	(i) the Offeror; (ii) all direct/indirect wholly-owned subsidiaries of the Offeror holding the Shares, namely Davenmore Limited, Wealth Ease Limited, Ascari Holdings Ltd., Colton Pacific Limited, CITIC Hong Kong (Holdings) Limited, Silver Ray Enterprises Inc., Grogan Inc., Greenlane International Holdings Inc., Chadacre Developments Limited, Cornaldi Enterprises Limited, Corton Enterprises Limited, Dashing Investments Limited, Karaganda Limited and Hainsworth Limited; and (iii) Hero Lion Holdings Limited (an indirect wholly-owned subsidiary of the Offeror) and the Nominee
Proposal	the proposal for the privatisation of the Company by the Offeror by way of the Scheme

THE SCHEME

Register	the register of members of the Company
Registrar of Companies	the Registrar of Companies appointed under the Companies Ordinance
Scheme	this scheme of arrangement under section 673 of the Companies Ordinance in its present form, with or subject to any modification thereof or addition thereof or condition approved or imposed by the High Court
Scheme Document	the composite scheme document dated 2 December 2019 issued jointly by the Company and the Offeror, which includes this Scheme
Scheme Record Date	Tuesday, 7 January 2020, or such other date as shall have been announced to the Shareholders, being the record date for the purpose of determining the entitlements of the Scheme Shareholders to the Cancellation Price under the Scheme
Scheme Shareholders	registered holders of the Scheme Shares at the Scheme Record Date
Scheme Shares	the Shares other than those held by the members of the Offeror SPV Entities
SFC	Securities and Futures Commission of Hong Kong
SFO	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
Shareholders	holders of the Shares
Shares	the ordinary shares of the Company
Stock Exchange	The Stock Exchange of Hong Kong Limited
Takeovers Code	the Hong Kong Code on Takeovers and Mergers

THE SCHEME

- (B) As at the Latest Practicable Date, the Company had 1,891,247,220 Shares in issue.
- (C) As at the Latest Practicable Date, the Offeror SPV Entities beneficially owned, controlled or had direction over 1,074,477,918 Shares, representing approximately 56.81% of the issued Shares.
- (D) As at the Latest Practicable Date, the Offeror Concert Parties beneficially owned, controlled or had direction over 1,100,150,318 Shares (representing approximately 58.17% of the issued Share), of which (i) 1,074,477,918 Shares were beneficially owned, controlled or directed by the Offeror SPV Entities (representing approximately 56.81% of the issued Shares); and (ii) 25,672,400 Shares were beneficially owned, controlled or directed by the Offeror Concert Parties other than the Offeror SPV Entities (representing approximately 1.36% of the issued Shares).
- (E) As at the Latest Practicable Date, the Scheme Shares comprised a total of 816,769,302 Shares beneficially owned, controlled or directed by the Scheme Shareholders (which included (i) the Offeror Concert Parties other than the Offeror SPV Entities and (ii) the Independent Shareholders), representing approximately 43.19% of the issued Shares.
- (F) The primary purpose of this Scheme is to privatise the Company by cancelling and extinguishing all of the Scheme Shares in consideration of the Cancellation Price so that the Company shall thereafter become wholly owned by the Offeror SPV Entities. Immediately after the cancellation and extinction of the Scheme Shares, the share capital of the Company will be increased to its former amount by the issue to the Nominee credited as fully paid of such number of the Shares as is equal to the number of Scheme Shares cancelled and extinguished.
- (G) The Offeror has agreed to undertake to the High Court to be bound thereby and to execute and do and procure to be executed and done all such documents, acts and things as may be necessary or desirable to be executed and done by it for the purpose of giving effect to this Scheme.

THE SCHEME

THE SCHEME

PART I

CANCELLATION AND EXTINGUISHMENT OF THE SCHEME SHARES

1. On the Effective Date:
 - (a) the share capital of the Company shall be reduced by cancelling and extinguishing the Scheme Shares;
 - (b) subject to and forthwith upon such reduction of capital referred to in paragraph (a) above taking effect, the share capital of the Company shall be increased to its former amount by the creation of such number of the Shares as is equal to the number of Scheme Shares cancelled and extinguished; and
 - (c) the Company shall apply the credit arising in its books of account as a result of the reduction of capital referred to in paragraph (a) above in paying up in full the Shares created pursuant to paragraph (b) above, which shall be allotted and issued, credited as fully paid, to the Nominee.

PART II

CONSIDERATION FOR CANCELLATION AND EXTINGUISHMENT OF THE SCHEME SHARES

2. In consideration of the cancellation and extinguishment of the Scheme Shares, the Offeror shall pay or cause to be paid to each Scheme Shareholder as appearing in the Register on the Scheme Record Date the Cancellation Price.

PART III

GENERAL

3.
 - (a) As soon as possible and but in any event within seven (7) business days (as defined in the Takeovers Code) following the Effective Date, the Offeror shall post or cause to be posted to the Scheme Shareholders cheques in respect of the sums payable to such Scheme Shareholders pursuant to paragraph 2 of this Scheme.
 - (b) All such cheques shall be sent by ordinary post in postage pre-paid envelopes addressed to such Scheme Shareholders at their respective registered addresses as appearing in the Register as on the Scheme Record Date, or in the case of joint holders, at the address appearing in the Register as at the Scheme Record Date of the joint holder whose name then stands first in the Register in respect of the relevant joint holding.
 - (c) All cheques shall be made payable to the order of the person or persons to whom, in accordance with the provisions of paragraph 3(b) of this Scheme, the envelope containing the same is addressed and the encashment of any such cheque shall be a good discharge to the Offeror for the moneys represented thereby.

THE SCHEME

- (d) All cheques shall be posted at the risk of the addressees and none of the Offeror, the Company, CLSA, the Independent Financial Adviser and the share registrar of the Company and their respective directors, employees, officers, agents, advisers, associates and affiliates and any other persons involved in the Proposal shall be liable for any loss or delay in transmission.
 - (e) On or after the day being six (6) calendar months after the posting of the cheques pursuant to paragraph 3(b) of this Scheme, the Offeror shall have the right to cancel or countermand payment of any such cheque which has not been cashed 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 until the expiry of six (6) years from the Effective Date and shall, prior to such date, make payments therefrom of the sums payable pursuant to paragraph 2 of this Scheme to persons who satisfy the Offeror that they are respectively entitled thereto and the cheques referred to in paragraph 3(b) of this Scheme of which they are payees have not been cashed. Any payments made by the Offeror shall not include any interest accrued on the sums to which the respective persons are entitled pursuant to this Scheme. 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.
 - (f) On the expiry of six (6) years from the Effective Date, the Offeror shall be released from any further obligation to make any payments under this Scheme and the Offeror shall be absolutely entitled to the balance (if any) of the sums then standing to the credit of the deposit account referred to in paragraph 3(e) of this Scheme, including accrued interest subject to any deduction required by law and expenses incurred.
 - (g) The preceding sub-paragraphs of this paragraph 3 shall take effect subject to any prohibition or condition imposed by law.
4. As from and including the Effective Date:
- (a) all certificates for the Scheme Shares shall cease to have effect as documents or evidence of title for such Scheme Shares and every holder thereof shall be bound, at the request of the Company, to deliver up such certificates to the Company or to any person appointed by the Company to receive the same for cancellation;
 - (b) all instruments of transfer validly subsisting as at the Scheme Record Date in respect of the transfer of any number of the Scheme Shares shall cease to be valid for all purposes as instruments of transfer; and

THE SCHEME

- (c) all mandates or other instructions to the Company in force as at the Scheme Record Date in relation to any of the Scheme Shares shall cease to be valid as effective mandates or instructions.

- 5. This Scheme shall become effective as soon as an office copy of the order of the High Court sanctioning this Scheme and confirming the reduction of the share capital of the Company involved in this Scheme shall have been registered by the Registrar of Companies under Part 2 of the Companies Ordinance.

- 6. Unless this Scheme shall have become effective on or before the Long Stop Date, this Scheme shall lapse.

- 7. The Company and the Offeror may jointly consent for and on behalf of all parties concerned to any modification of or addition to this Scheme or to any condition which the High Court may see fit to approve or impose.

- 8. 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 the Offeror will be borne by the Offeror, and other costs, charges and expenses of the Scheme and the Proposal will be shared between the Offeror and the Company equally.

2 December 2019

NOTICE OF COURT MEETING

HCMP 2123/2019

**IN THE HIGH COURT OF THE
HONG KONG SPECIAL ADMINISTRATIVE REGION
COURT OF FIRST INSTANCE**

MISCELLANEOUS PROCEEDINGS NO. 2123 OF 2019

IN THE MATTER OF

DAH CHONG HONG HOLDINGS LIMITED
大昌行集團有限公司

AND

IN THE MATTER OF

**THE COMPANIES ORDINANCE,
CHAPTER 622 OF THE LAWS OF
THE HONG KONG SPECIAL ADMINISTRATIVE REGION**

NOTICE OF COURT MEETING

NOTICE IS HEREBY GIVEN that, by an order dated the 29th day of November 2019 (the “**Order**”) made in the above matters, the High Court of the Hong Kong Special Administrative Region (the “**High Court**”) has directed a meeting (the “**Meeting**”) to be convened of the Scheme Shareholders (as defined in the Scheme referred to below) for the purpose of considering and, if thought fit, approving, with or without modification, a scheme of arrangement (the “**Scheme**”) proposed to be made between Dah Chong Hong Holdings Limited (the “**Company**”) and the Scheme Shareholders, and that such Meeting will be held at 10:30 a.m. on Thursday, 19 December 2019 at Salon 1–5 of JW Marriott Ballroom, Level 3, JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong at which place and time all Scheme Shareholders are requested to attend.

A copy of the Scheme and a copy of the explanatory statement (the “**Explanatory Statement**”) explaining the effect of the Scheme, required to be furnished pursuant to section 671 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), are incorporated in the scheme document of which this Notice forms part (the “**Scheme Document**”), which has been despatched by post to the Scheme Shareholders. A copy of the Scheme Document can also be obtained by any person entitled to attend the Meeting during usual business hours on any day prior to the day appointed for the said meeting (other than a Saturday, a Sunday or a public holiday in Hong Kong) (a) from the share registrar of the Company, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong and (b) at the office of the Company’s solicitors at 20th Floor, Alexandra House, 18 Chater Road, Central, Hong Kong. The Scheme Document is also available at <http://www.dch.com.hk>.

NOTICE OF COURT MEETING

In compliance with the Hong Kong Code on Takeovers and Mergers (the “**Takeovers Code**”), the shares in the Company (the “**Shares**”) held by CITIC Pacific Limited and its direct/indirect wholly-owned subsidiaries holding the Shares, and parties acting in concert (as defined in the Takeovers Code) with CITIC Pacific Limited may not be voted at the Meeting. Only the Shares held by the Independent Shareholders (as defined in the Scheme) are eligible for voting thereat.

The Independent Shareholders may vote in person at the Meeting or they shall be entitled to appoint another person as their proxy to attend and vote in their stead. A proxy need not be a member of the Company. A pink form of proxy for use at the Meeting is enclosed with the Scheme Document.

In the case of joint holders of a Share, if more than one of such joint holders be present at any meeting personally or by proxy, that one of the said persons so present whose name stands first on the Register in respect of such Share shall alone be entitled to vote in respect thereof.

It is requested that forms appointing proxies, together with the power of attorney or other authority (if any) under which they are signed or a notarially certified copy thereof, be lodged with the Company’s share registrar as stated above 48 hours before the time appointed for holding the Meeting or any adjournment thereof.

Completion and return of the form of proxy will not preclude an Independent Shareholder from attending and voting in person at the Meeting or any adjournment thereof. In the event an Independent Shareholder attends and votes at the Meeting or any adjournment thereof after having lodged his/her/its form of proxy, his/her/its form of proxy shall be deemed to be revoked.

For the purpose of determining the entitlement to attend and vote at the Meeting, the register of members of the Company will be closed from Monday, 16 December 2019 to Thursday, 19 December 2019, both days inclusive, and during such period, no transfer of the Shares will be effected. In order to qualify to vote at the Meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company’s share registrar as stated above no later than 4:30 p.m. (Hong Kong time) on Friday, 13 December 2019.

By the same order, the High Court has appointed Lai Ni Hium, or failing him, Lee Tak Wah, or failing him, any other available director of the Company to act as chairman of the Meeting and has directed the chairman of the Meeting to report the result thereof to the High Court.

NOTICE OF COURT MEETING

The Scheme will be subject to the subsequent sanction of the High Court as set out in the Explanatory Statement contained in the Scheme Document.

Dated the 2nd day of December 2019.

Reed Smith Richards Butler

Solicitors for the Company

20th Floor
Alexandra House
18 Chater Road
Central, Hong Kong

As at the date of this notice, the directors of the Company are:

Executive Directors: Lai Ni Hium and Lee Tak Wah;

Non-Executive Directors: Zeng Chen (Chairman), Yin Ke, Kwok Man Leung and Fei Yiping;

Independent Non-Executive Directors: Chan Kay Cheung, Chan Hui Dor Lam, Doreen, Woo Chin Wan, Raymond, Zhang Lijun and Cheng Jinglei.

NOTICE OF GENERAL MEETING



大昌行集團有限公司 DAH CHONG HONG HOLDINGS LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 01828)

NOTICE IS HEREBY GIVEN that a general meeting (the “**General Meeting**”) of Dah Chong Hong Holdings Limited (the “**Company**”) will be held at Salon 1–5 of JW Marriott Ballroom, Level 3, JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Thursday, 19 December 2019, at 10:45 a.m. (or if later immediately after the conclusion or adjournment of the meeting of the Scheme Shareholders (as defined in the Scheme as referred to below) convened at the direction of the High Court of the Hong Kong Special Administrative Region (the “**High Court**”) for the same day and place) for the purpose of considering and, if thought fit, passing, the following as special resolution:

SPECIAL RESOLUTION

“**THAT:**

- (A) subject to the approval of the scheme of arrangement dated 2 December 2019 (the “**Scheme**”) between the Company and the Scheme Shareholders (as defined in the Scheme) in the form of the print contained in the scheme document dated 2 December 2019 which has been produced to this General Meeting and for the purpose of identification signed by the chairman of this General Meeting, with any modification of or addition to it, or any condition, as may be approved or imposed by the High Court, for the purpose of giving effect to the Scheme, on the date on which the Scheme becomes effective in accordance with the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) (the “**Effective Date**”):
- (i) the share capital of the Company be reduced by cancelling and extinguishing the Scheme Shares (as defined in the Scheme);
 - (ii) subject to and forthwith upon such reduction of capital taking effect, the share capital of the Company be increased to its former amount by the creation of such number of new shares of the Company (the “**Shares**”) as is equal to the number of Scheme Shares cancelled and extinguished; and
 - (iii) the Company shall apply the credit arising in its books of account as a result of the said reduction of capital in paying up in full the Shares to be created as aforesaid, which new Shares shall be allotted and issued, credited as fully paid, to the Nominee (as defined in the Scheme) and the directors of the Company be and are hereby unconditionally authorised to allot and issue the same accordingly;

NOTICE OF GENERAL MEETING

- (B) the listing of the Shares on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) be withdrawn, subject to the Scheme taking effect; and
- (C) the directors of the Company be and are hereby unconditionally authorised to do all acts and things considered by them to be necessary or desirable in connection with the implementation of the Scheme, including (without limitation) (i) the making of an application to the Stock Exchange for the withdrawal of the listing of the Shares on the Stock Exchange, subject to the Scheme taking effect; (ii) the reduction of capital, (iii) the allotment and issue of the Shares referred to above; and (iv) the giving, on behalf of the Company, of consent to any modification of, or addition to, the Scheme, which the High Court may see fit to impose and to do all other acts and things considered by them to be necessary or desirable in connection with the implementation of the Scheme and the Proposal (as defined in the Scheme).”

By order of the board
Dah Chong Hong Holdings Limited
Lai Ni Hium
Executive Director and Chief Executive Officer

Hong Kong, 2 December 2019

As at the date of this notice, the directors of the Company are:

Executive Directors: Lai Ni Hium and Lee Tak Wah;

Non-Executive Directors: Zeng Chen (Chairman), Yin Ke, Kwok Man Leung and Fei Yiping;

Independent Non-Executive Directors: Chan Kay Cheung, Chan Hui Dor Lam, Doreen, Woo Chin Wan, Raymond, Zhang Lijun and Cheng Jinglei.

Notes:

- (i) Unless otherwise defined in this notice or the context otherwise requires, terms defined in the Scheme shall have the same meanings when used in this notice.
- (ii) At the General Meeting, the chairman of the General Meeting will put forward the above resolution to be voted on by way of poll.
- (iii) A white form of proxy for use at the General Meeting is enclosed with the Scheme Document.
- (iv) A member entitled to attend and vote at the General Meeting shall be entitled to appoint another person as his proxy to attend and vote instead of him. A proxy need not be a member of the Company. A member who is the holder of two or more shares may appoint more than one proxy to attend on the same occasion.
- (v) 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 the Company’s share registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong, 48 hours before the time appointed for holding the General Meeting or any adjournment thereof. Completion and return of the white form of proxy will not preclude a member from attending and voting in person at the General Meeting or any adjournment thereof. In the event that a member attends and votes at the General Meeting after having lodged his/her/its form of proxy, his/her/its form of proxy shall be deemed to be revoked.

NOTICE OF GENERAL MEETING

- (vi) In the case of joint holders of a Share, if more than one of such joint holders be present at any meeting personally or by proxy, that one of the said persons so present whose name stands first on the Register in respect of such Share shall alone be entitled to vote in respect thereof.
- (vii) For the purpose of determining the entitlement to attend and vote at the General Meeting, the register of members of the Company will be closed from Monday, 16 December 2019 to Thursday, 19 December 2019, both days inclusive, and during such period, no transfer of the Shares will be effected. In order to qualify to attend and vote at the General Meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's share registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. (Hong Kong time) on Friday, 13 December 2019.
- (viii) In case of any inconsistency, the English version of this notice shall prevail.