



29 August 2023

*To the Independent Board Committee
and the Shareholders of
Comba Telecom Systems Holdings Limited*

Dear Sirs,

**POSSIBLE MAJOR TRANSACTION AND DEEMED DISPOSAL
IN RELATION TO THE PROPOSED SPIN-OFF AND
SEPARATE LISTING OF THE SPIN-OFF CO**

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Shareholders in respect of the Proposed Spin-off, the details of which are set forth in the "Letter from the Board" (the "Board Letter") contained in the circular issued by the Company to the Shareholders dated 29 August 2023 (the "Circular"), of which this letter forms part. Unless the context otherwise requires, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

As at the Latest Practicable Date, the Group indirectly held approximately 78.5% equity interest in the Spin-off Co and the Spin-off Business mainly includes research and development, design, sale of network system products and solutions and service ancillary to products sold such as commissioning and after-sale services etc. The Company submitted an application in relation to the Proposed Spin-off pursuant to PN15 to the Hong Kong Stock Exchange for approval and the Hong Kong Stock Exchange confirmed on 3 September 2021 that the Company might proceed with the Proposed Spin-off.

Due to the impact of the outbreak of COVID-19 on relevant processes, the Company postponed the Proposed Spin-off and the submission of the listing application for the Proposed A-Share Listing which was initially scheduled in the second half of 2021.

As the COVID-19 pandemic situation has improved recently, the Company has decided to resume and proceed with the Proposed Spin-off under PN15 and the listing application for the Proposed A-Share Listing, which is planned to be submitted in September 2023.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising Mr. Lau Siu Ki, Kevin, Ms. Ng Yi Kum and Ms. Wong Lok Lam, being all the independent non-executive Directors, has been established to advise the Shareholders in respect of the Proposed Spin-off. We, Grand Moore Capital Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Shareholders in respect of the Proposed Spin-off.

OUR INDEPENDENCE

As at the Latest Practicable Date, we were not connected with the Company or any of its respective substantial Shareholders, Directors or chief executives, or any of their respective associates and accordingly, are considered suitable to give independent advice to the Independent Board Committee and the Shareholders in respect of the Proposed Spin-off.

In the past two years, we have not acted in any financial adviser role to the Company. Save for the appointment as the independent financial adviser, there was no other relationship and/or engagement between the Company and us in the past two years.

With regards to our independence from the Company, it is noted that (i) apart from normal professional fees paid or payable to us in connection with the current appointment as the independent financial adviser, no other arrangements exist whereby we had received or will receive any fees or benefits from the Company, its subsidiaries or their respective controlling Shareholders that could reasonably be regarded as relevant to our independence; and (ii) the aggregate professional fees paid or to be paid to us do not make up a significant portion of our revenue during the relevant period which would affect our independence. Accordingly, we consider that we are independent to act as the independent financial adviser in respect of the Proposed Spin-off pursuant to Rule 13.84 of the Hong Kong Listing Rules.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Shareholders, we have relied on (i) the information and facts contained or referred to in the Circular; (ii) the Group's annual report for the year ended 31 December 2022 (the "**2022 Annual Report**"); (iii) other information provided by the Directors and/or the senior management of the Company (the "**Management**"); (iv) the opinions expressed by and the representations of the Directors and the Management; and (v) our review of the relevant public information. We have assumed that all information and representations that have been provided by the Directors and the Management, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date, and should there be any material changes to our opinion after the Latest Practicable Date, Shareholders would be notified as soon as possible. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful

consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, the Management (where applicable), which have been provided to us. The Directors have confirmed that, to the best of their knowledge, they believe that no material fact or information has been omitted from the information supplied to us and that the representations made or opinions expressed have been arrived at after due and careful consideration and there are no other facts or representations the omission of which would make any statement in the Circular, including this letter, misleading.

We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Hong Kong Listing Rules. We, as the independent financial adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice. We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, carried out any independent verification of the information, opinions or representations given or made by or on behalf of the Company, nor conducted any independent in-depth investigation into the business affairs, assets and liabilities or future prospects of the Company, their respective subsidiaries or associates (if applicable) or any of the other parties involved in the Proposed Spin-off, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Proposed Spin-off. The Company has been separately advised by its own professional advisers with respect to the Proposed Spin-off and the preparation of the Circular (other than this letter).

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

In the event of inconsistency, the English text of this letter shall prevail over the Chinese translation of this letter.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation in relation to the Proposed Spin-off, we have taken into account the following principal factors and reasons:

1. Background information and financial overview of the Group

As stated in the Board Letter, the Group was established in 1997 and is a global leading wireless solutions provider with its own research and development facilities, manufacturing base and sales and service teams. The Company has been primary listed on the Main Board of the Hong Kong Stock Exchange since 2003 and secondary listed on the Main Board of the SGX-ST since 2023. The Group is principally engaged in the provision of products and solutions for antenna and subsystems and network products. For management purposes, the Group is organized into business units based on their products and services and has two reportable operating segments, namely, (i) wireless telecommunications network system equipment and services; and (ii) operator telecommunication services and their value-added services. The wireless telecommunications network system equipment and services comprise two main lines of business – (i) the antenna and subsystems operation; and (ii) the network systems operation (i.e. the Spin-off Business). Certain summary financial information of the Group as extracted from the 2022 Annual Report for the years ended 31 December 2021 and 2022 (“FY2021” and “FY2022” respectively) is set out below:

	For the year ended	
	31 December	
	2022	2021
	HK\$'000	HK\$'000
	(audited)	(audited)
Revenue	6,364,677	5,869,666
Gross profit	1,873,531	1,422,831
Profit/(loss) attributable to owners of the parent	190,237	(592,567)

The Group's consolidated revenue increased from approximately HK\$5,869,666,000 for FY2021 to approximately HK\$6,364,677,000 for FY2022, representing an increase of approximately HK\$495,011,000 or 8.4%. As per the 2022 Annual Report, the increase of revenue was primarily attributable to the Group's success in tenders for centralized procurement of various antenna products in Mainland China and the completion of international tender projects of antenna products as scheduled, which contributed to a significant growth in the number of orders, which achieved record high, of base station antenna products, as compared to that in FY2021. The Group's gross profit increased from approximately HK\$1,422,831,000 for FY2021 to approximately HK\$1,873,531,000 for FY2022, representing an increase of approximately HK\$450,700,000 or 31.7%. As stated in the 2022 Annual Report, the Group's gross profit was mainly benefitted from the optimization of revenue structure of the Group's products during FY2022 with

increased revenue from core products yielding higher gross profit and hence achieving economies of scale, coupled with the reduction in costs of production as a result of the optimization of the production system through research and development in design. The Group recorded a profit attributable to owners of the parent of approximately HK\$190,237,000 for FY2022, as compared to a loss attributable to owners of the parent of approximately HK\$592,567,000 for FY2021. Such turnaround in profit attributable to owners of the parent was mainly due to the significant increases in revenue and gross profit of the Group in FY2022, as well as the reduction in the operating expenses ratio resulting from effective cost and expenses control measures implemented by the Group, which has substantially increased the Group's overall efficiency.

	As at 31 December 2022 HK\$'000 (audited)	As at 31 December 2021 HK\$'000 (audited)
Cash and cash equivalents	1,531,669	1,652,228
Current assets	7,617,095	8,217,952
Net current assets	2,100,202	2,256,324
Total assets	10,575,862	11,512,579
Current liabilities	5,516,893	5,961,628
Total liabilities	6,611,136	7,328,762
Equity attributable to owners of the parent	3,728,305	3,774,716

The Group's cash and cash equivalents amounted to approximately HK\$1,531,669,000 as at 31 December 2022, representing a decrease of approximately HK\$120,559,000 or 7.3%, as compared to that of approximately HK\$1,652,228,000 as at 31 December 2021. The Group recorded net current assets of approximately HK\$2,100,202,000 as at 31 December 2022, representing a decrease of approximately HK\$156,122,000 or 6.9%, as compared to that of approximately HK\$2,256,324,000 as at 31 December 2021. Such decrease was mainly attributable to the combined effects from a decrease in current assets of approximately HK\$600,857,000 or 7.3% and a decrease in current liabilities of approximately HK\$444,735,000 or 7.5% as at 31 December 2022, as compared to that of 31 December 2021. We note from the 2022 Annual Report that the decrease in current assets is mainly attributable to the decreases in trade receivables, prepayments, other receivables and other assets, and cash and cash equivalents. Meanwhile, the decrease in current liabilities is mainly due to the decrease in trade and bills payables, and other payables and accruals. The improvement in liquidity and solvency gives rise to a slight increase in current ratio from approximately 1.378 times as at 31 December 2021 to approximately 1.381 times as at 31 December 2022.

The Group's total liabilities decreased by approximately HK\$717,626,000 or 9.8%, from approximately HK\$7,328,762,000 as at 31 December 2021 to approximately HK\$6,611,136,000 as at 31 December 2022. Such decrease was mainly attributable to the aforementioned factors related to the decrease in current liabilities and the decrease in interest-bearing bank borrowings (non-current portion). As at 31 December 2022, interest-bearing bank borrowings of the Group amounted to approximately HK\$1,341,993,000, of which the interest-bearing bank borrowings (current portion) amounted to approximately HK\$751,993,000 and interest-bearing bank borrowings (non-current portion) amounted to approximately HK\$590,000,000. Apart from the interest-bearing bank borrowings, the Group also had trade and bills payable of approximately HK\$4,051,703,000, other payables and accruals of approximately HK\$571,506,000, and redeemable preferred shares in a subsidiary of approximately HK\$274,028,000 as at 31 December 2022.

The Group recorded equity attributable to owners of the parent of approximately HK\$3,728,305,000 as at 31 December 2022, which represents a decrease of approximately HK\$46,411,000 or 1.2%, from equity attributable to owners of the parent of approximately HK\$3,774,716,000 as at 31 December 2021. This was mainly attributable to decreases in the Group's property, plant and equipment, trade receivables, prepayments, other receivables and other assets, intangible assets, and cash and cash equivalents as at 31 December 2022.

2. Background information and financial overview of the Spin-off Group

It is stated in the Board Letter that the Spin-off Co is a company established in September 2003 in the PRC and was subsequently transformed into a joint stock limited company for the purpose of taking up the Spin-off Business from the Group to achieve better delineation between the Remaining Business and the Spin-off Business. As at the Latest Practicable Date, the Group indirectly held approximately 78.5% equity interest in the Spin-off Co and the Spin-off Co had 15 wholly-owned subsidiaries. The Spin-off Business mainly includes research and development, design, sale of network system products and solutions and service ancillary to products sold such as commissioning and after-sale services etc. The main products are network products which includes (i) base station products including integrated base station, extending base station, high-power base station and (ii) radio frequency products including coverage extender products, including distributed antenna system solutions and repeater stations, and Open RAN Remote Radio Unit products, and 5G industry basic network platform, all of which are crucial to the deployment of 5G technology. Customers of the Spin-off Business are mainly mobile network operators. Certain summary financial information of the Spin-off Group as

extracted from the Board Letter and advised by the Management for FY2021 and FY2022 is set out below:

	For the year ended	
	31 December	
	2022	2021
	<i>HK\$' million⁽¹⁾</i>	<i>HK\$' million⁽²⁾</i>
	(unaudited)	(unaudited)
Revenue	1,239	1,400
Profit/(loss) before taxation and extraordinary items ⁽³⁾	(10)	10
Profit/(loss) after taxation and extraordinary items ⁽³⁾	(12)	4

Notes:

- (1) The exchange rate adopted for conversion of RMB to HKD for FY2021 was based on the average exchange rate of RMB1 to HKD1.2047.
- (2) The exchange rate adopted for conversion of RMB to HKD for FY2022 was based on the average exchange rate of RMB1 to HKD1.1656.
- (3) The audited consolidated financial statements of the Spin-off Group contained no extraordinary items for the financial years ended 31 December 2021 and 2022.

The Spin-off Group's revenue decreased from approximately HK\$1,400 million for FY2021 to approximately HK\$1,239 million for FY2022, representing a decrease of approximately HK\$161 million or 11.5%. As discussed with Management, the decrease of revenue was primarily attributable to decrease in sales generated from the outstanding orders of antenna business which does not belong to main business of the Spin-off Group in FY2022, as compared to that of FY2021. The Spin-off Group recorded a loss before taxation and extraordinary items of approximately HK\$10 million for FY2022, as compared to a profit before taxation and extraordinary items of approximately HK\$10 million for FY2021. Such turnaround in profit before taxation and extraordinary items was mainly due to aforementioned decrease in sales generated from the outstanding orders of antenna business. The Spin-off Group recorded a loss after taxation and extraordinary items of approximately HK\$12 million for FY2022, as compared to a profit after taxation and extraordinary items of approximately HK\$4 million for FY2021. Such turnaround in profit after taxation and extraordinary items was mainly due to aforementioned decrease in sales generated from the outstanding orders of antenna business.

	As at	As at
	31 December	31 December
	2022	2021
	<i>HK\$' million⁽⁴⁾</i>	<i>HK\$' million⁽⁵⁾</i>
	(unaudited)	(unaudited)
Net asset value	333.3	359.2

Notes:

- (4) The exchange rate adopted for conversion of RMB to HKD for FY2021 was based on the period end exchange rate of RMB1 to HKD1.22574.
- (5) The exchange rate adopted for conversion of RMB to HKD for FY2022 was based on the period end exchange rate of RMB1 to HKD1.13181.

The Spin-off Group recorded a consolidated net asset value of approximately HK\$333.3 million for FY2022, representing a decrease of approximately HK\$25.9 million or 7.2%, as compared to a consolidated net asset value of approximately HK\$359.2 million for FY2021. Such decrease in consolidated net asset value was mainly due to the net loss in FY2022 and the impact of foreign currency statement translation differences.

3. The Proposed Spin-off and the Proposed A-Share Listing

The Board Letter further states that subject to fulfilment of the conditions set out in the paragraph headed “Conditions of the Proposed Spin-off” below, it is proposed that the Spin-off Co will apply for a separate listing of its A-shares on the PRC Stock Exchange and will be spun-off from the Group. The listing of the Spin-off Co is expected to involve the issue of new A-shares of the Spin-off Co by way of public offer and/or placing. It is intended that the number of new A-shares to be issued under the Proposed A-Share Listing will not be more than 25% of the enlarged issued share capital of the Spin-off Co after the aforesaid public offer and/or placing. The actual number of new A-shares of the Spin-off Co to be issued will be determined at a later stage subject to regulatory approvals by the PRC Stock Exchange and the CSRC, discussions among the management of the Spin-off Co, the PRC Sponsor and other advisers for the Proposed A-Share Listing and, in particular, the market conditions. In any event, the Group is expected to hold not less than 58.9% of the enlarged issued share capital of the Spin-off Co following completion of the Proposed A-Share Listing, and the Spin-off Co will remain as a subsidiary of the Company.

Based on the current timetable, it is expected that the listing application of the Spin-off Co will be made in September 2023 and the listing of the A-shares of the Spin-off Co on the PRC Stock Exchange, if approved and proceeded with, will be around the second half of 2024.

Conditions of the Proposed Spin-off and the Proposed A-Share Listing

As stated in the Board Letter, based on the information currently available to the Board, the Proposed Spin-off will be conditional upon, among other things, the fulfillment of the following conditions:

- (i) the approval by the CSRC, the PRC Stock Exchange and other authorities in relation to the Proposed A-Share Listing;
- (ii) the approval by the Shareholders in relation to the Proposed Spin-off at the EGM; and

- (iii) the approval by any other applicable PRC regulatory authorities for the listing of and permission to deal in the A-shares to be issued by the Spin-off Co.

As at the Latest Practicable Date, none of these conditions have been fulfilled. If any of these conditions is not fulfilled or waived, if applicable, the Proposed Spin-off and the Proposed A-Share Listing will not proceed and the Company will publish an announcement as soon as practicable thereafter.

Proceeds to be raised from the Proposed A-Share Listing and proposed use of proceeds

It is stated in the Board Letter that the Directors and the directors of the Spin-off Co currently expect the gross proceeds to be raised under the Proposed A-Share Listing will be within the range of approximately RMB750 million to approximately RMB1,700 million, on the assumption that the proposed offering size represents 25% of the Spin-off Co's enlarged issued share capital and the estimated market capitalizations of not less than approximately RMB3,000 million and not more than approximately RMB6,814 million. Having consulted the PRC Sponsor and considered the Spin-off Group was loss-making in FY2022 and is asset-light in nature, the price-to-sales (P/S) valuation metrics has been adopted to estimate the market capitalization of the Spin-off Co upon the Proposed A-Share Listing. The upper range of the estimated market capitalization of the Spin-off Co of approximately RMB6,814 million was calculated by multiplying the unaudited consolidated revenue of the Spin-off Group for FY2022 of RMB1,063 million with the average P/S ratio of 6.41 times of five selected comparable companies. These five selected comparable companies are all A-share listed companies: four of which are Spin-off Co's industry peers that provide base station products, radio frequency products and 5G+ industrial application products, and one of which is Spin-off Co's direct competitor that provides 5G small cell base station products to mobile network operators in the PRC. The lower range of the estimated market capitalization of RMB3,000 million was chosen by reference to the minimum market capitalization requirement of RMB3 billion, which is one of the listing criteria applicable for the Proposed A-Share Listing pursuant to the Rules Governing the Listing of Stocks on the Science and Technology Innovation Board of Shanghai Stock Exchange 《上海證券交易所科創板股票上市規則》(2020 Revision).

At this stage, the actual amount of proceeds to be raised cannot be determined as the size of the offering under the Proposed A-Share Listing (including the exact number of offer shares and the final offer price of the Spin-off Co's offering) has not been fixed yet.

Pursuant to the Securities Issuance and Underwriting Management Measures 《證券發行與承銷管理辦法》 (2023 Revision) issued by the CSRC, relevant consultations and enquiries shall be made with professional and institutional investors with rich experience in investment and company valuation (including companies involved in securities, fund management, futures, trusts, insurance and finance, other qualified foreign investors and private fund managers) and other specified investors in order to determine the final offer price under the Proposed Spin-off and the Proposed A-Share Listing. In determining the offer price, the aforementioned investors should determine their price quotations under the principles of honesty, objectiveness and independence, and shall not negotiate the quotations nor deliberately provide a higher or lower quotation.

Based on the discussions between the management of the Spin-off Co and the PRC Sponsor, the number and the final offer price of new A-shares to be issued under the Proposed A-Share Listing will ultimately be determined by the Spin-off Co and the lead underwriter in accordance with relevant laws and regulations, or other requirements by the CSRC or the PRC Stock Exchange and will be determined with reference to the then responses to the price consultation and other method(s) to be agreed between the Spin-off Co and the lead underwriter. In determining the offer price of the offering under the Proposed A-Share Listing, the Spin-off Co will take into account, among other things, (i) the financial performance of the Spin-off Group as reflected its historical operating results; (ii) the business prospects and expected performance of the Spin-off Group; (iii) the capital needs of the Spin-off Group and the proposed use of proceeds as further discussed below; (iv) the then responses to price consultation with potential subscribers in the book-building process for the Proposed A-Share Listing; (v) the prevailing A-share market conditions and market sentiment at the time of the Proposed A-Share Listing; (vi) the appropriate valuations to be determined by the Spin-off Co and the lead underwriter having considered those of comparable companies listed in the PRC in the same industry as the Spin-off Co; and (vii) the applicable laws and regulations, including the Securities Issuance and Underwriting Management Measures (2023 Revision) and the Implementing Rules of the Shanghai Stock Exchange for the Issuance and Underwriting Business for Initial Public Offerings of Securities 《上海證券交易所首次公開發行證券發行與承銷業務實施細則》. Having considered the above, the Board is of the view that the aforementioned basis of determining the offer price of the Proposed A-Share Listing is fair and reasonable.

The Spin-off Co intends to apply the net proceeds from the Proposed A-Share Listing (after deducting related expenses) for the development of the Spin-off Business, in the following manner:

- (i) approximately 38% will be used for a research and development project of communication base station products and industry solutions based on 5G technology, which is projected to complete in 2026;

- (ii) approximately 10% will be used for a research and development project of a new generation of multi-mode and multi-frequency remote radio unit, which is projected to complete in 2026;
- (iii) approximately 14% will be used for a research and development project of a co-constructed and shared high-performance distributed digital radio remote system for 2G/3G/4G/5G, which is projected to complete in 2026;
- (iv) approximately 8% will be used for a construction project of intelligent upgrade for the next generation of 5G+ communication products, which is projected to complete in 2025; and
- (v) approximately 30% will be used to supplement the working capital of the Spin-off Group.

The above timeline is based on current estimation by the management of the Spin-off Group and will be subject to change depending on the actual construction/upgrade progress.

Details of the Proposed Spin-off and the Proposed A-Share Listing will be available at a later stage. Further announcement(s) will be made by the Company as and when appropriate in compliance with the Hong Kong Listing Rules. Shareholders and potential investors of the Company should be aware that the expected offer size and the estimated gross proceeds as referred to above is for illustration purposes only and the actual amount to be raised and the proposed use of proceeds shall be subject to the listing application documents to be submitted by the Spin-off Co taking into account, among others, the PRC domestic market conditions at the time of the materialization of the Proposed A-Share Listing as well as the business development of the Spin-off Group, and may vary substantially from the amounts estimated above.

Lock-up undertakings

It is stated in the Board Letter that, as required by the Rules Governing the Listing of Stocks on Shanghai Stock Exchange 《上海證券交易所股票上市規則》 relevant to the Proposed A-Share Listing and in accordance with normal market practice, certain members of the Group (being the direct shareholder of the Spin-off Co and its parties acting in concert), Mr. Fok Tung Ling, certain senior management of the Group and the Spin-off Group and other existing

shareholders of the Spin-off Co will provide lock-up undertakings in relation to shares in the Spin-off Co. As far as the Group is concerned, each of the relevant members of the Group will undertake that, amongst others,

- (a) within a period of 36 months from the date of listing of the Spin-off Co's shares (the "**Lock-up Period**"), it will not transfer or entrust others to manage the Spin-off Co's shares it has directly or indirectly held before the Proposed A-Share Listing, nor allow the Spin-off Co repurchase these shares;
- (b) if the closing prices of the Spin-off Co's A-shares are all lower than the issue price during a period of 20 consecutive trading days within the first 6 months after the date of listing of the Spin-off Co's A-shares, or the closing price at the date falling the expiry of 6 months from the date of listing (if such day is not a trading day, then immediately following trading day) the lock-up period of the Spin-off Co's A shares directly or indirectly held before the listing by it will be automatically extended for 6 months;
- (c) if the Spin-off Co's A-shares held by it are reduced within two years after the expiry of the Lock-up Period, the disposal price shall not be lower than the issue price of the Proposed A-Share Listing; and
- (d) if the Spin-off Co does not make a profit at the time of listing, before the Spin-off Co turns profit-making, it shall not dispose of the shares of the Spin-off Co it holds before listing during the first three full financial years after the date of listing of the Spin-off Co's shares; during the fourth and fifth financial years from the date of initial listing, it shall not dispose more than 2% of the Spin-off Co's total issued shares each year; and after the Spin-off Co has become profit-making, it may dispose of the shares in the Spin-off Co held by it before listing from the following day after the publication of the annual report of that financial year and shall comply with the relevant requirements on share reduction.

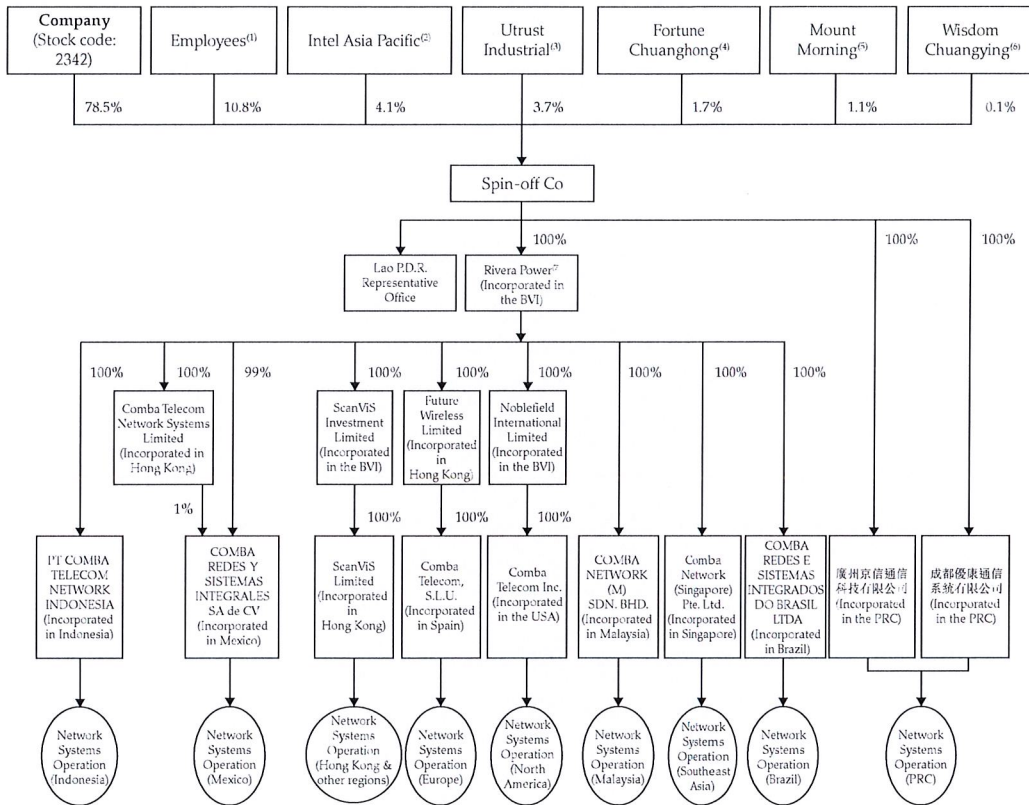
Whilst the Company has no present intention to dispose of the shares in the Spin-off Co upon and immediately after the Proposed A-Share Listing, the Directors believe that, notwithstanding the lock-up requirement as mentioned above, the Proposed Spin-off will be beneficial to the Company and Shareholders in the long run as the Proposed A-Share Listing will render the Group's investment in the Spin-off Group a publicly tradable asset, as a result of which the Group will be able to trade the shares of the Spin-off Co through an open trading platform as it sees fit in the future.

In addition, given that (i) the Spin-off Group and the Remaining Group, whether before or after the Proposed A-Share Listing, have separate and independent management teams to conduct their respective business; (ii) the Spin-off Group has already established its own financial and management information system, which is independent from that of the Remaining Group; and (iii) there is sufficient delineation in terms of business, director and management, purchase and sales function, finance and operation, between the Spin-off Group and the Remaining Group, the Directors believe that the lock-up undertakings to be provided by the undertakers are not expected to have any material adverse impact on the operations and businesses of the Remaining Group following completion of the Proposed A-Share Listing.

We understand from the Directors that the Company has no present intention to dispose of the shares in the Spin-off Co upon and immediately after the Proposed Spin-off and the Proposed A-Share Listing. As such, we concur with the Directors that notwithstanding the lock-up requirement as mentioned above, the Proposed Spin-off will be beneficial to the Company and Shareholders in the long run as the Proposed A-Share Listing will render the Group's investment in the Spin-off Co a publicly tradable asset, as a result of which the Group will be able to trade the shares of the Spin-off Co through an open trading platform as it sees fit in the future. In addition, given the aforementioned independence and delineation of (i) management, (ii) financial and management information system as well as (iii) business, director and management, purchase and sales function, finance and operation between the Spin-off Group and the Remaining Group, we concur with the Directors that the lock-up undertakings to be provided by the undertakers are not expected to have any material adverse impact on the operations and businesses of the Remaining Group following completion of the Proposed A-Share Listing.

Effect of the Proposed Spin-off on the shareholding structure of the Spin-off Co

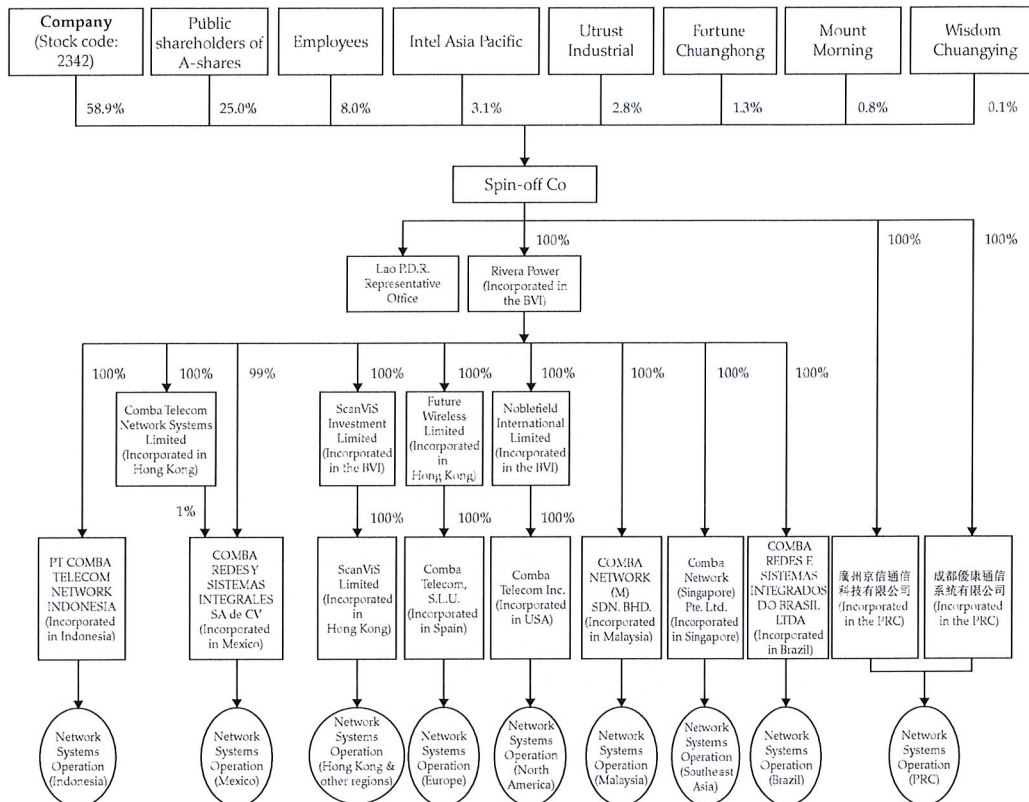
Set out below is the shareholding structure of the Spin-off Co as at the Latest Practicable Date as extracted from the Board Letter:



Notes:

- (1) As of the Latest Practicable Date, the employees of the Group collectively held approximately 10.8% equity interest in Spin-off Co through 11 limited partnerships established under the laws of the PRC, namely (i) Xin Han Tong No.1 Enterprise Management (Zhuhai) Partnership (Limited Partnership)* (鑫瀚通一號企業管理(珠海)合夥企業(有限合夥)); (ii) Xin Han Tong No.2 Enterprise Management (Zhuhai) Partnership (Limited Partnership)* (鑫瀚通二號企業管理(珠海)合夥企業(有限合夥)); (iii) Xin Han Tong No.3 Enterprise Management (Zhuhai) Partnership (Limited Partnership)* (鑫瀚通三號企業管理(珠海)合夥企業(有限合夥)); (iv) Xin Han Tong No.5 Enterprise Management (Zhuhai) Partnership (Limited Partnership)* (鑫瀚通五號企業管理(珠海)合夥企業(有限合夥)); (v) Xin Han Tong No.6 Enterprise Management (Zhuhai) Partnership (Limited Partnership)* (鑫瀚通六號企業管理(珠海)合夥企業(有限合夥)); (vi) Xin Han Tong No.7 Enterprise Management (Zhuhai) Partnership (Limited Partnership)* (鑫瀚通七號企業管理(珠海)合夥企業(有限合夥)); (vii) Xin Han Tong No.8 Enterprise Management (Zhuhai) Partnership (Limited Partnership)* (鑫瀚通八號企業管理(珠海)合夥企業(有限合夥)); (viii) Xin Han Tong No.9 Enterprise Management (Zhuhai) Partnership (Limited Partnership)* (鑫瀚通九號企業管理(珠海)合夥企業(有限合夥)); (ix) Xin Han Tong No.10 Enterprise Management (Zhuhai) Partnership (Limited Partnership)* (鑫瀚通十號企業管理(珠海)合夥企業(有限合夥)); (x) Xin Han Tong No.11 Enterprise Management (Zhuhai) Partnership (Limited Partnership)* (鑫瀚通十一號企業管理(珠海)合夥企業(有限合夥)) and (xi) Xin Han Tong No.12 Enterprise Management (Zhuhai) Partnership (Limited Partnership)* (鑫瀚通十二號企業管理(珠海)合夥企業(有限合夥)).
- (2) As of the Latest Practicable Date, Intel Asia Pacific Research and Development Ltd. (英特爾亞太研發有限公司) (“Intel Asia Pacific”) held approximately 4.1% equity interest in Spin-off Co.
- (3) Guangdong Utrust Industrial Investment Fund Partnership (Limited Partnership)* (廣東粵財產業投資基金合夥企業(有限合夥)) (“Utrust Industrial”) is a limited partnership established under the laws of the PRC. As of the Latest Practicable Date, Utrust Industrial held approximately 3.7% equity interest in Spin-off Co.
- (4) Shenzhen Fortune Chuanghong Private Equity Investment Company (Limited Partnership)* (深圳市達晨創鴻私募股權投資企業(有限合夥)) (“Fortune Chuanghong”) is a limited partnership established under the laws of the PRC. As of the Latest Practicable Date, Fortune Chuanghong held approximately 1.7% equity interest in Spin-off Co.
- (5) Beijing Mount Morning Venture Capital Fund Partnership (Limited Partnership)* (北京晨山創業投資基金合夥企業(有限合夥)) (“Mount Morning”) is a limited partnership established under the laws of the PRC. As of the Latest Practicable Date, Mount Morning held approximately 1.1% equity interest in Spin-off Co.
- (6) Shenzhen Wisdom Chuangying Private Equity Investment Company (Limited Partnership)* (深圳市財智創贏私募股權投資企業(有限合夥)) (“Wisdom Chuangying”) is a limited partnership established under the laws of the PRC. As of the Latest Practicable Date, Wisdom Chuangying held approximately 0.1% equity interest in Spin-off Co.
- (7) Rivera Power Limited (“Rivera Power”) is a limited company incorporated under the laws of the British Virgin Islands and is a wholly-owned subsidiary of Spin-off Co.

Set out below is the shareholding structure of the Spin-off Co immediately upon completion of the Proposed Spin-off assuming that the number of new A-shares of the Spin-off Co to be issued under the Proposed A-Share Listing represents 25.0% of the enlarged issued share capital of the Spin-off Co:



It is expected that immediately upon completion of the Proposed Spin-off, the Group will indirectly hold not less than 58.9% equity interest in the Spin-off Co and the Spin-off Co will remain as a subsidiary of the Company.

The Remaining Group

The Board Letter states that after completion of the Proposed Spin-off, the Remaining Group will be principally engaged in the Remaining Business comprising (i) the antenna and subsystems operation, which connects and transfers data over a distance (the “**Antenna and Subsystems Business**”); (ii) the provision of comprehensive engineering services to operators; (iii) the provision of operator telecommunication services and value-added services in Lao People’s Democratic Republic; and (iv) the research and development, manufacturing and trading of microwave communication system, digital microwave system equipment and intelligent machinery. The products of the Remaining Group transfer and convert high frequency current and electromagnetic spectrums from the antenna mounted on towers or located on top of buildings.

The Directors believe that, upon completion of the Proposed Spin-off and Proposed A-Share Listing, (i) the Remaining Group will retain a sufficient level of operations and sufficient assets for the Company to maintain its listing status; and (ii) the Spin-off Business and the Remaining Business will be distinct and independent from each other, and thus will satisfy the requirements under PN15.

Set out below are key areas of delineation between the Remaining Group and the Spin-off Group in terms of business delineation, management independence and financial independence.

(i) *Clear delineation of business and products*

- *Different industry:* The Spin-off Business is primarily involved in the operation of network systems which includes research and development, design, sale of network system products and solutions and service ancillary to products sold, whereas the Remaining Business is primarily involved in the antenna and subsystems operation.
- *Difference in applications and functions of the products:* Products under the Spin-off Business are usually tailored to realize specific needs of different industries, including the mobile network industry and others, whereas products under the Remaining Business primarily serves the telecommunication industry as antennas are usually operated by mobile network providers, internet service providers and telecommunication equipment manufacturers.
- *Difference in technologies required to operate the products:* Products under the Spin-off Business primarily focus on the distribution of frequencies and tailoring the frequencies for the customers' specific needs, whereas products under the Remaining Business primarily focus on different transmission methods over a long distance, such as transferring and converting high frequency current and electromagnetic spectrums from the antenna mounted on towers or located on top of buildings.
- *Difference in target industries:* The Spin-off Business primarily targets the industrial internet industry, the energy industry, the chemical industry, the transportation industry and the healthcare industry, whereas the Remaining Business primarily focuses on the base station antenna market, telecommunication equipment manufacturers and integrators, as well as internet service providers. Due to the oligopolistic nature of the telecommunications industry and the wide spectrum of telecommunication services and products offered by major mobile network operators, both the Spin-off Business and the Remaining

Business will have major mobile network operators as their overlapping customers following the Proposed Spin-off. However, as the Spin-off Group and the Remaining Group provide distinctive products, the overlapping customers do not cause any hindrance in the delineation of business between the Spin-off Group and the Remaining Group.

(ii) Management independence

Following completion of the Proposed Spin-off and the Proposed A-Share Listing, the Spin-off Group will be managed separately and independently from the Remaining Group. The Spin-off Group will have nine directors at Spin-off Co level and three senior management, the Remaining Group will have nine directors (comprising five executive Directors, one non-executive Director and three independent non-executive Directors at the Company level) and four senior management. Amongst the directors and senior management of Spin-off Co and the Company following the Proposed Spin-off, there will be five overlapping directors and no overlapping senior management, which contributes to just over half of the nine directors for Spin-off Co and for the Company. As the Spin-off Co will remain a subsidiary of the Company after the Proposed Spin-off, it is ordinary and in the best interest of the Shareholders for the Group to retain control over the board of the Spin-off Co.

(iii) Financial independence

Prior to the Proposed Spin-off, it is natural and accords with normal commercial practice that banks request guarantee from the Company when extending credit facilities to the Spin-off Co. In addition, some banking facilities were granted to the Group as a whole, which included the Spin-off Group. As a matter of fact the amount of banking facilities where the Group has acted as guarantor for the Spin-off Group's banking facilities is not material relative to the Spin-off Group's total asset. It is envisaged that following the Proposed Spin-off, the Spin-off Co as a listed company on its own will be able to tap on the capital market and obtaining credit facilities without the need of corporate guarantee from the Company to meet its funding needs.

(iv) Operational independence

The Spin-off Group has set up its own administrative, manufacturing and research and development capabilities with a team of independent staff, and its own organizational structure with independent function to adapt to the Spin-off Group's development demands, each with specific areas of responsibility carrying out essential operational functions without the Group's support.

4. Reasons for and benefits of the Proposed Spin-Off

As stated in the Board Letter, the Board considers that the Proposed Spin-off will be beneficial to both the Remaining Group and the Spin-off Group for the following reasons:

(i) Adoption of different business strategies

The Proposed Spin-off will enable the respective management teams of the Company and the Spin-off Co to dedicate their time on building the core businesses of the Remaining Group and the Spin-off Group, respectively, to adopt different business strategies in order to better suit their respective businesses, and increase their responsiveness to market changes and opportunities specific to the business of the relevant group. The Proposed Spin-off will also provide greater financial transparency and business coherence and clearer corporate structure to each of the Remaining Group and the Spin-off Group and to allow the Spin-off Group to create a more defined business focus and efficient resource allocation, thus enhancing operation efficiency of each of the Remaining Group and the Spin-off Group.

(ii) Alternative valuation for the businesses

The Spin-off Business has grown to a sufficient size to warrant a separate listing. The Proposed Spin-off substantively separates the Spin-off Business from the Remaining Business, thereby enabling investors and financiers to appraise the strategies, functional exposures, risks and returns of the respective businesses separately and to make their investment decisions accordingly. The Proposed Spin-off will allow the Company and the Shareholders an opportunity to realise their fair value of investment in the Spin-off Co; and the Company will continue to be the beneficial owner of a majority of shares in the Spin-off Co upon completion of the Proposed Spin-off and to benefit from any enhanced value of the Spin-off Group through consolidation of the Spin-off Group's accounts and receipt of dividend distributions (if any).

(iii) New sources of fund raising and financing opportunities

The Proposed Spin-off will enable the Remaining Group and the Spin-off Group to have their separate fund raising platforms to directly and independently access both the debt and equity capital markets, which in turn may provide greater aggregate financing capacity to both the Remaining Group and the Spin-off Group to deploy their funds towards their respective developments, operations and investment opportunities, as there will be greater clarity on the respective financial status of each of the Remaining Group and the Spin-off Group. In addition, the cash proceeds to be received from the public offering and placing of A-shares of the Spin-off Co will provide capital to the Spin-off Group for its operations and expansion plan. The Proposed Spin-off will potentially provide greater debt capacity due to greater clarity for credit profiling of each of the Company and the Spin-off Co

respectively by financial institutions that wish to extend credit or financing to the Company or the Spin-off Co.

(iv) Segregation of different business

The Proposed Spin-off and a separate listing of the shares of the Spin-off Co will not only enhance the Spin-off Group's profile amongst its customers, suppliers and other business partners, but will also improve the Spin-off Group's ability to recruit, motivate and retain key management personnel by enhanced management incentives through adoption of equity-based incentive program.

(v) Ability to attract and form strategic partnerships

The Proposed Spin-off will enable the Spin-off Group to enhance its corporate profile, thereby increasing its ability to attract strategic investors, who can produce synergy for the Spin-off Group, for investment in and forming strategic partnerships with the Spin-off Group.

(vi) Enhanced corporate governance of the Spin-off Group

The Proposed Spin-off will increase the operational and financial transparency and enhance the corporate governance of the Spin-off Group and provide investors, financial institutions and rating agencies with greater clarity on the business and financial status of each of the Remaining Group and the Spin-off Group on a stand-alone basis, and such enhancement will help to build investor confidence in forming investment decisions based on their assessment of the performance, management, strategy, risks and returns of both the Remaining Group and the Spin-off Group.

After we have considered the following factors:

- (i) the Proposed Spin-off will provide greater financial transparency and business coherence and clearer corporate structure to each of the Remaining Group and the Spin-off Group and to allow the Spin-off Group to create a more defined business focus and efficient resource allocation, thus enhancing operation efficiency of each of the Remaining Group and the Spin-off Group;
- (ii) The Spin-off Business itself has grown to a sufficient size to warrant a separate listing, and the Proposed Spin-off substantively separates the Spin-off Business from the Remaining Businesses, thereby enabling investors and financiers to appraise the strategies, functional exposures, risks and returns of the respective businesses separately and to make their investment decisions accordingly. The benefits of unlocking and realising the value of the Spin-off Business will be further illustrated in the section headed "5. Comparable Companies" below;
- (iii) the Company will continue to be the beneficial owner of a majority of shares in the Spin-off Co upon completion of the

Proposed Spin-off and to benefit from any enhanced value of the Spin-off Group through consolidation of the Spin-off Group's accounts and receipt of dividend distributions;

- (iv) the cash proceeds from the Proposed Spin-off will provide additional funding source for the future development of the Spin-off Group;
- (v) the Proposed Spin-off will potentially provide greater debt capacity due to greater clarity for credit profiling of each of the Company and the Spin-off Co respectively by financial institutions that wish to extend credit or financing to the Company or the Spin-off Co;
- (vi) upon the completion of the Proposed Spin-off, the Spin-off Co will become a listed company with its A-shares listed on the PRC Stock Exchange with fund-raising capacity as a listed company on its own; and
- (vii) the Implied P/S Ratio (Low) and the Implied P/B Ratio (Low) are considered favorable to the Group as compared to the P/S ratios and P/B ratios of the Comparable Companies as discussed in the section headed "5. Comparable Companies" below,

we are of the view the Proposed Spin-off is in the interests of the Company and the Shareholders as a whole.

5. Comparable Companies

In order to provide the Shareholders with a general reference regarding the valuation of companies engaging in a business similar to that of the Spin-off Co, we performed our independent analysis on the valuation of the deemed disposal as a result of the Proposed Spin-off. We noted that the trading multiples analysis such as price-to-sales ("P/S") ratio, price-to-book ("P/B") ratio and price-to-earnings ratio ("P/E") ratio, are commonly adopted valuation methods in the market. As mentioned in the section headed "2. Background information and financial overview of the Spin-off Group" above, the Spin-off Group was loss-making in FY2022 and accordingly, the P/E ratio is deemed inappropriate to be adopted for our analysis. As a result, we consider that the P/S ratio and P/B ratio are appropriate benchmarks for our trading multiples analysis.

Based on (i) the Spin-off Co's enlarged issued share capital and the estimated market capitalisations of not less than approximately RMB3,000 million and not more than approximately RMB6,814 million, as mentioned in the Board Letter, implying that the mid-point of the enlarged issued share capital and the estimated market capitalisations to be approximately RMB4,907 million; and (ii) the Spin-off Co's consolidated revenue for FY2022 of approximately RMB1,063.3 million, the implied P/S ratio of the Spin-off Co will be within the range of approximately 2.82 times (the "Implied P/S Ratio (Low)") and 6.41 times (the "Implied P/S Ratio (High)"), with a mid-point of P/S ratio of 4.61 times (the "Implied P/S Ratio (Mid)").

Furthermore, based on (i) the abovementioned Spin-off Co's enlarged issued share capital and the estimated market capitalisations of not less than approximately RMB3,000 million and not more than approximately RMB6,814 million, and the implication of the mid-point of the enlarged issued share capital and the estimated market capitalisations to be approximately RMB4,907 million; and (ii) the Spin-off Co's consolidated net asset value for FY2022 of approximately RMB294.5 million, the implied P/B ratio of the Spin-off Co will be within the range of approximately 10.19 times (the "Implied P/B Ratio (Low)") and 23.14 times (the "Implied P/B Ratio (High)"), with a mid-point of P/B ratio of 16.66 times (the "Implied P/B Ratio (Mid)").

We note from the Board Letter that, in order to assess the upper range of the estimate market capitalisations of the Spin-off Group upon the Proposed A-Share Listing, P/S ratios of five A-share listed companies (the "Market Capitalisation Comparable Companies") have been considered, four of which are Spin-off Co's industry peers that provide base station products, radio frequency products and 5G+ industrial application products. In order for the aforementioned P/S ratio to reflect foreseeable market competition, one of the five comparable companies is a direct competitor of the Spin-off Co and it provides 5G small cell base station products to mobile network operators in the PRC. Looking at a wider extent, we have conducted a search on Bloomberg for other companies which are listed on the stock exchanges in both Hong Kong and the PRC and are principally engaged in similar industry as the Spin-off Co (i.e. engaged in manufacturing and sale of network and telecommunication products) and compiled an exhaustive list of the following 9 comparable companies (the "Comparable Companies") meeting our aforementioned selection criteria as identified by us based on our best information, knowledge and belief. The following table sets out the comparison of P/S ratios and P/B ratios of the Comparable Companies, the Spin-off Co and the Company:

Company name (stock code)	Principal business (Note 1)	Market Capitalisation (RMB million) (as at the date of the announcement of the Proposed Spin-Off, i.e. 8 August 2023)	P/S ratio (Note 2)	P/B ratio (Note 2)
CETC Potevio Science & Technology Co., Ltd (002544 CH Equity)	Develops, designs, and sells electronic and information products	16,043.32	2.23	4.20
CICT Mobile Communication Technology Co., Ltd (688387 CH Equity)	Manufactures and distributes telecommunications equipment	25,127.81	3.11	3.64

Company name (stock code)	Principal business (Note 1)	Market Capitalisation (RMB million) (as at the date of the announcement of the Proposed Spin-Off, i.e. 8 August 2023)	P/S ratio (Note 2)	P/B ratio (Note 2)
CIG Shanghai Co., Ltd (603083 CH Equity)	Develops, manufactures, and sells telecom broadband terminals, wireless network equipment, and smart home gateway products	14,651.94	3.18	7.02
Raisecom Technology Co., Ltd (603803 CH Equity)	Manufactures and distributes telecommunication equipment	3,511.55	1.69	1.76
Shenzhen Kexin Communication Technologies Co., Ltd (300565 CH Equity)	Designs, produces, and sells network cabinet, wireless, and transmission network equipment	3,471.52	4.01	6.92
Sichuan Tianyi Comheart Telecom Co., Ltd (300504 CH Equity)	Researches, develops, produces, and sells network connection and protection equipment, mobile communication network optimization systems, and broadband network terminal solutions	4,928.01	1.64	2.13
ZTE Corporation (000063 CH Equity) (763 HK Equity)	Operates carrier network business	169,347.06	1.43	2.90
Jushri Technologies, Inc (300762 CH Equity) (the "Outlier")	Researches and manufactures broadband mobile communication equipment	9,215.79	19.99 (Note 5)	3.43 (Note 5)
Ruijie Networks Co., Ltd (301165 CH Equity)	Develops network software products	29,357.95	2.30	6.84
		Minimum	1.43	1.76
		Maximum	19.99	7.02
		Average	4.40	4.31
		Median	2.30	3.64

Company name (stock code)	Principal business (Note 1)	Market Capitalisation (RMB million) (as at the date of the announcement of the Proposed Spin-Off, i.e. 8 August 2023)	P/S ratio (Note 2)	P/B ratio (Note 2)
				Minimum (excluding the Outlier)
		Maximum (excluding the Outlier)	4.01	7.02
		Average (excluding the Outlier)	2.45	4.42
		Median (excluding the Outlier)	2.27	3.92
The Spin-off Co	Research and development, design, sale of network system products and solutions and service ancillary to products sold such as commissioning and after-sale services	Implied P/S Ratio (Low) and Implied P/B Ratio (Low)	2.82 (Note 3)	10.19 (Note 4)
		Implied P/S Ratio (Mid) and Implied P/B Ratio (Mid)	4.61 (Note 3)	16.66 (Note 4)
		Implied P/S Ratio (High) and Implied P/B Ratio (High)	6.41 (Note 3)	23.14 (Note 4)
The Company	Research, development, manufacture and sale of wireless telecommunications network system equipment and the provision of related engineering services	3,194.03	0.55	0.93

Source: Bloomberg

Notes:

1. The principal activities of the Comparable Companies are sourced from Bloomberg.
2. P/S ratios and P/B ratios of the Comparable Companies and the Company are calculated from data extracted from Bloomberg.
3. The implied P/S ratios of the Spin-off Co is based on the estimated market value of the Spin-off Co's enlarged issued share capital upon the Proposed A-Share Listing and the Spin-off Co's consolidated revenue for FY2022.
4. The implied P/B ratios of the Spin-off Co is based on the estimated market value of the Spin-off Co's enlarged issued share capital upon the Proposed A-Share Listing and the Spin-off Co's consolidated net asset value for FY2022.

5. The P/S ratio of Jushri Technologies, Inc of approximately 19.99 times is almost 5 times of the P/S Ratio of Shenzhen Kexin Communication Technologies Co., Ltd of approximately 4.01 times (which has the second highest P/S ratio among the Comparable Companies) and is exceptionally high as compared with those of the other Comparable Companies, and thus is considered as an outlier.
6. The Spin-off Group was loss-making in FY2022 and accordingly, the P/E ratio is deemed inappropriate to be adopted for our analysis.
7. The above Comparable Companies cover all of the Market Capitalisation Comparable Companies.

As depicted from the above table, the P/S ratios of the Comparable Companies ranged from approximately 1.43 times to approximately 19.99 times, with an average of approximately 4.40 times and a median of approximately 2.30 times.

Pursuant to one of the listing criteria applicable for the Proposed A-Share Listing pursuant to the Rules Governing the Listing of Stocks on the Science and Technology Innovation Board of Shanghai Stock Exchange 《上海證券交易所科創板股票上市規則》 (2020 Revision), there is a minimum market capitalization requirement of RMB3,000 million, meaning that in the event the Proposed A-Share Listing is materialized, the lowest possible market capitalization of the Spin-off Group upon the Proposed A-Share Listing amounts to RMB3,000 million. On the other hand, on the basis that the Spin-off Co's consolidated revenue of approximately RMB1,063.3 million and consolidated net assets value of approximately RMB294.5 million for FY2022 are adopted, the lowest possible P/S ratio and P/B ratio of the Spin-off Co upon the Proposed A-Share Listing are 2.82 and 10.19 respectively.

We noted that even having the Outlier with exceptionally high P/S Ratio of approximately 19.9 times included in the Comparable Companies, the Implied P/S Ratio (Low) of approximately 2.82 times, being calculated based on the lowest end of the Spin-off Co's enlarged issued share capital upon the Proposed A-Share Listing and the estimated market capitalisations, is within the range of the P/S ratios of the Comparable Companies and is higher than the median P/S ratio of the Comparable Companies of approximately 2.30 times, which means that the lowest end of the estimated market capitalization of the Spin-off Group being released upon the Proposed Spin-off is already higher than derived by the median P/S ratio of the Comparable Companies, and is considered fair and reasonable to the Group. Concurrently, the Implied P/S Ratio (Mid) of approximately 4.61 times is higher than the average and median P/S ratio of the Comparable Companies of approximately 4.40 times and 2.30 times, respectively, which means that the mid-point of the estimated market capitalization of the Spin-off Group being released upon the Proposed Spin-off is already higher than derived by the median and average P/S ratios of the Comparable Companies, and is considered favorable to the Group.

In addition, if the Outlier with exceptionally high P/S Ratio of approximately 19.9 times is excluded from the Comparable Companies, we noted that the Implied

P/S Ratio (Low) of approximately 2.82 times, being calculated based on the lowest end of the Spin-off Co's enlarged issued share capital upon the Proposed A-Share Listing and the estimated market capitalisations, is within the range of the P/S ratios of the Comparable Companies (excluding the Outlier) and is already higher than the average and median P/S ratio of the Comparable Companies (excluding the Outlier) of approximately 2.45 times and 2.27 times, respectively, which means that the lowest end of the estimated market capitalization of the Spin-off Group being released upon the Proposed Spin-off is already higher than that derived by the median and average P/S ratios of the Comparable Companies, and is considered favorable to the Group.

We also noted that the Implied P/B Ratio (Low) of approximately 10.19 times, being calculated based on the lowest end of the Spin-off Co's enlarged issued share capital upon the Proposed A-Share Listing and the estimated market capitalisations, is already higher than the maximum P/B ratio of the Comparable Companies of approximately 7.02 times, which means that the lowest end of the estimated market capitalization of the Spin-off Group being released upon the Proposed Spin-off is already higher than that derived by the maximum P/B ratio of the Comparable Companies, and is considered favorable to the Group.

Furthermore, as Implied P/S Ratio (Low) of approximately 2.82 times and the Implied P/B Ratio (Low) of approximately 10.19 times are much higher than the Company's own P/S ratio and P/B ratio of approximately 0.55 times and 0.93 times, respectively, the Proposed Spin-off allows the Spin-off Business to be appraised separately and offers the Company and the Shareholders an opportunity to realise their fair value of investment in the Spin-off Co and is likely to unlock the value of the Spin-off Co and attain higher market valuation.

Taking into account the principal factors as discussed above, we consider that the Proposed Spin-off allows the Spin-off Business to be appraised separately and the estimated market capitalization of the Spin-off Group being released upon the Proposed Spin-off is favorable compared to that derived by the P/S and P/B ratios of the Comparable Companies, the terms of the Proposed Spin-off are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

6. Financial effects of the Proposed Spin-off on the Group

It is stated in the Board Letter that following completion of the Proposed Spin-off, the Group is expected to hold not less than 58.9% of the enlarged issued share capital of the Spin-off Co, and the Spin-off Co will continue to be accounted for as a subsidiary in the consolidated financial statements of the Group. The expected financial impacts of the Proposed Spin-off on the Group are as follows:

Earnings

With reference to the Board Letter, the Proposed Spin-off, which is expected to involve the issue of new A-shares of the Spin-off Co, will constitute a deemed disposal of the Group's interest in the Spin-off Co. It is

expected that the difference between the net proceeds from the issue of new A-shares of the Spin-off Co and the change of share of consolidated net asset value of the Spin-off Group by the non-controlling interests upon completion of the Proposed A-Share Listing will be recorded in equity attributable to owners of the Company.

Based on the assumption that the number of A-shares of the Spin-off Co to be issued at the Proposed A-Share Listing represents 25% of the enlarged share capital of the Spin-off Co, the Proposed A-Share Listing will result in a dilution of the Group's interest in the Spin-off Co from approximately 78.5% as at the Latest Practicable Date to approximately 58.9% immediately after the completion of the Proposed A-Share Listing.

Assets and liabilities

With reference to the Board Letter, the Proposed Spin-off, which is expected to involve the issue of new A-shares of the Spin-off Co for cash, is expected to increase the amount of cash recorded in the consolidated statement of financial position of the Group and the total assets of the Group correspondingly.

It should be noted that the aforementioned analyses are for illustrative purposes only and do not purport to represent how the financial position of the Group will be upon completion of the Proposed Spin-off.

7. Waiver in respect of assured entitlement

As stated in the Board Letter, in accordance with the requirements of paragraph 3(f) of PN15, the Company is required to give due regard to the interests of the existing Shareholders by providing them with an assured entitlement to the A-shares of the Spin-off Co if the Proposed A-Share Listing proceeds. However, the Board considers that it is not practicable to provide assured entitlement of the A-shares of the Spin-off Co as further explained below and that the requirement of paragraph 3(f) of PN15 cannot be met. Accordingly, the Company made an application for the Waiver to the Hong Kong Stock Exchange, which subsequently has granted the Waiver.

In determining the venue for the proposed listing of the Spin-off Co, the Board has made due and careful consideration, taking into account, among other things, the nature of the Spin-off Business, the jurisdiction in which the Spin-off Co was established and had been operating its business, and the characteristics of different capital markets, and concluded that it is more suitable to seek a listing of the Spin-off Co on the A-share market in the PRC.

Based on the legal advice from the Company's PRC legal counsel, according to applicable PRC laws, only certain qualified foreign investors are allowed to subscribe for or participate in the offering of A-shares, which include, among others, (a) qualified foreign institutional investors; (b) qualified domestic institutional

investors of the PRC; (c) foreign strategic investors approved by Ministry of Commerce of the PRC; (d) individuals with permanent residence in the PRC; and (e) residents of Hong Kong, Macao Special Administrative Region or Taiwan region who live and work in the PRC. Based on the shareholders register of the Company as at the Latest Practicable Date, most of the registered Shareholders are individuals with addresses in Hong Kong. The Board believes most of these Shareholders are not PRC residents. Further, Mr. Fok Tung Ling and Mr. Zhang Yue Jun, who are both Directors and Shareholders have confirmed that they are not qualified foreign investors for the purpose of investing in A-shares. In light of the above, the Board considers it impracticable to provide the Shareholders with assured entitlement under the Proposed Spin-off in light of the legal restrictions for foreign investors to subscribe for or participate in the offering of A-shares.

Moreover, the Securities Law and the Administrative Measures on Issuance and Underwriting of Securities of the PRC provides that any issuing entities upon public offering shall obtain the approval from the securities regulatory and management authorities. "Public Offering" includes the issuance by offline distribution and online subscription to investors in compliance with the quotation, subscription procedures and rules. For offline distribution, existing Shareholders may participate in the offline distribution on the condition that they could provide effective quotations according to the PRC law. Even if they could provide such effective quotation, the Company would be unable to make any preferential allocations of the offer shares to its existing Shareholders on the ground that all investors should be treated equally. For online subscription, after the effective subscription amount is confirmed, all valid subscription would need to be assigned through balloting. Accordingly, in implementing the proposal for the Proposed A Share Listing, it would be impossible for the Company to issue shares in the Spin-off Co to specific people and reserve shares for Shareholders in Hong Kong pursuant to the existing laws of the PRC.

It is contemplated that the Group will hold not less than 58.9% of the issued share capital in the Spin-off Co and will continue to be the holding company of the Spin-off Co after the Proposed Spin-off. The financial results of the Spin-off Co will continue to be consolidated into the Group's financial statements, and the Shareholders will continue to enjoy the contribution from the Spin-off Co as well as the benefits of the Proposed Spin-off as described above through their holdings in the Shares.

The Board is of the view that the interest of the Shareholders would not be materially prejudiced by not providing assured entitlement to the A-shares of the Spin-off Co to the Shareholders.

Having considered the above and the reasons for and benefits of the Proposed Spin-off mentioned above, the Board is of the view that the Proposed Spin-off and the Waiver are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

Furthermore, the Board considers that it is not practicable to provide assured entitlement of the A-shares of the Spin-off Co and that the requirement of paragraph 3(f) of PN15 cannot be met. Thus, the Company has applied for, and the Hong Kong Stock Exchange has granted a waiver from strict compliance with the requirement under Paragraph 3(f) of PN15.

Taking into consideration the legal restrictions under the applicable PRC laws in providing the existing Shareholders with an assured entitlement referred to above and the Shareholders will continue to enjoy the contribution from the Spin-off Co as well as the benefits of upon the completion of the Proposed Spin-off through their holdings in the Shares, we concur with the view of the Board that, the interest of the Shareholders would not be materially prejudiced by not providing assured entitlement to the A-shares of the Spin-off Co to the Shareholders.

OPINION AND RECOMMENDATION

Having considered the principal factors and reasons discussed above, we are of the view that the Proposed Spin-off, although not in the ordinary and usual course of business, is on normal commercial terms and is fair and reasonable and in the interests of the Company and the Shareholders as a whole. Therefore, we would recommend (i) the Independent Board Committee to advise the Shareholders; and (ii) the Shareholders, to vote in favor of the ordinary resolution(s) to approve the Proposed Spin-off at the EGM.

Yours faithfully,
For and on behalf of
Grand Moore Capital Limited



Kevin So
Managing Director –
Investment Banking
Department



Florence Ng
Associate Director

Note:

Mr. Kevin So is a licensed person under the SFO to undertake type 6 regulated activity (advising on corporate finance) and is a responsible officer in respect of Grand Moore Capital Limited's type 6 regulated activity (advising on corporate finance). Mr. So has over 20 years of experience in the corporate finance industry in Hong Kong.

Ms. Florence Ng is a licensed person under the SFO to undertake type 6 regulated activity (advising on corporate finance) and is a responsible officer in respect of Grand Moore Capital Limited's type 6 regulated activity (advising on corporate finance). Ms. Ng has over 10 years of experience in the corporate finance industry in Hong Kong.