红日资本有限公司
RED SUN CAPITAL LIMITED

13 February 2020

To: the Takeovers Code IBC, the Listing Rules IBC and the Independent Shareholders

Dear Sir/Madam,

**DISCLOSABLE AND CONNECTED TRANSACTION
INVOLVING OFF-MARKET SHARE BUY-BACK**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to the Takeovers Code IBC in respect of the Share Buy-back, the Listing Rules IBC and the Independent Shareholders in relation to the Settlement Deed and the transactions contemplated thereunder (including but not limited to the Share Buy-back), details of which are set out in the letter from the Board (the "**Letter from the Board**") contained in the circular dated 13 February 2020 (the "**Circular**"), of which this letter forms part. Unless otherwise stated, terms used in this letter shall have the same meanings as defined in the Circular.

On 21 June 2016, Xingye (as purchaser and being a wholly-owned subsidiary of the Company), the Vendor (as vendor), and the Guarantors, together with Mr. Tong (as guarantors), entered into the SPA, pursuant to which Xingye conditionally agreed to acquire, and the Vendor conditionally agreed to sell, the entire issued share capital of Funnytime at the consideration of HK$186,000,000.20 subject to certain consideration adjustment mechanism. Such consideration shall be satisfied (i) as to HK$116,000,000 in cash; and (ii) as to HK$70,000,000.20 by issuance of 77,777,778 Consideration Shares at the issue price of HK$0.90 each.

Under the SPA, the Funnytime Group shall achieve performance targets of adjusted net profit of RMB18,000,000, RMB22,000,000 and RMB30,000,000 for the three years ended 31 December 2016, 31 December 2017 and 31 December 2018 respectively, and that its total anticipated adjusted net profit shall be RMB70,000,000. As the Funnytime Group had fulfilled its performance targets for the two years ended 31 December 2016 and 2017, the Company duly allotted and issued a total of 44,442,223 Consideration Shares and paid the entire cash portion of HK$116,000,000 (inclusive of the transaction costs) to the Vendor.

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The Guarantors and Mr. Tong were the then shareholders of the Vendor and pursuant to the SPA, each of them has unconditionally and irrevocably guaranteed the due observance and performance by the Vendor under the SPA, and agreed to indemnify the Company and Xingye in respect of all losses and damages as a result of any failure by the Vendor to perform or comply with its obligations under the SPA. In July 2018, Mr. Tong was relieved from acting as one of the guarantors under the SPA after his disposal of all his interest in the Vendor to Mr. Ren. The Guarantors remain as the guarantors under the SPA.

Given the Funnytime Group has failed to meet its performance target for the year ended 31 December 2018, according to the consideration adjustment mechanism under the SPA, the Vendor shall repay Xingye the Repayment Amount of HK$40,135,567 with respect to the cash portion, and the remaining number of Consideration Shares to be issued to the Vendor has been reduced to 6,424,734 Shares, being the Unissued Shares which are withheld by the Company pending the settlement of the Repayment Amount.

As disclosed in the announcement of the Company dated 16 August 2019, the Vendor was considering to settle the Repayment Amount on a one-off basis by raising capital on its own. At the time, it was stated in the announcement that the Company was also considering to buy back the Consideration Shares issued under the SPA if the Vendor was unable to raise sufficient capital to settle the Repayment Amount within a reasonable timeframe. In addition, it was also mentioned in the announcement that the Unissued Shares might be used to settle part of the Repayment Amount. During the last few months, the parties to the SPA held various rounds of negotiations and the discussions to come to a resolution of the matter. In particular, the parties to the SPA had come to the realisation that the Vendor would have serious difficulties in raising capital on its own to finance the Repayment Amount and therefore the negotiations had eventuated into the Settlement Deed involving the Unissued Share Cancellation, the Share Buy-back and the Residual Repayment Arrangement, which was agreed and regarded by the parties to the SPA as the optimal solution to resolve the long-standing issue associated with the settlement of the Repayment Amount. Given the Guarantors are the existing guarantors to the SPA (save for Mr. Tong), in fulfilment of their obligations as guarantors to the SPA to unconditionally and irrevocably guarantee the due observance and performance of the Vendor under the SPA, they have also been closely involved in the negotiations of the Settlement Deed with the Company, and agreed to continue to act as Guarantors to the Vendor under the Settlement Deed.

On 23 January 2020 (after trading hours), the Company, Xingye, the Vendor, and the Guarantors entered into the Settlement Deed with respect to the settlement of the Repayment Amount owed by the Vendor to Xingye, pursuant to which: (i) the Company shall cancel the issuance of, and be relieved from the obligation to issue, the Unissued Shares at the Cancellation Price of HK$0.80 per Share (i.e. the Unissued Share Cancellation); (ii) the Company shall buy back the Sale Shares from the Vendor at the Buy-back Price of HK$0.80 per Share (i.e. the Share Buy-back); and (iii) the Vendor shall repay the Residual Repayment Amount in cash to the Company (i.e. the Residual Repayment Arrangement).

Share Buy-back Code implications

The Share Buy-back constitutes an off-market share buy-back by the Company. The Company has made an application to the Executive for approval of the Share Buy-back pursuant to Rule 2 of the Share Buy-back Code. The Executive's approval, if granted, will normally be conditional upon, among other things, the approval of the Share Buy-back by at least three-fourths of the votes cast on a poll by the Independent Shareholders present in person or by proxy at the EGM.

Listing Rules implications

As more than one of the applicable percentage ratios in respect of the Settlement exceed 5% but all the applicable percentage ratios are less than 25%, the Settlement constitutes a disclosable transaction of the Company and is therefore subject to the announcement requirement under Chapter 14 of the Listing Rules. In addition, Mr. Ren was a Director within 12 months before the date of the Announcement, who is also beneficially interested in 72% of the existing issued share capital of the Vendor and a director of one of the subsidiaries of the Company. Accordingly, each of the Vendor and Mr. Ren is a connected person of the Company. The Settlement constitutes a connected transaction for the Company and is therefore subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

EGM

The voting in respect of the Settlement Deed and the transactions contemplated thereunder (including but not limited to the Share Buy-back) at the EGM will be conducted by way of poll. As at the Latest Practicable Date, the Vendor, Mr. Ren, Mr. Yang and Mr. Chu directly holds 44,442,223, 300,000, 105,000 and 300,000 Shares, respectively, representing approximately 5.19%, 0.04%, 0.01% and 0.04% of the existing issued share capital of the Company, respectively. The Vendor, Mr. Ren and Mr. Yang, together with their respective associates and parties acting in concert and those who are interested in or involved in the Settlement Deed and the transactions contemplated thereunder (including but not limited to the Share Buy-back), which includes Mr. Zhu who is the chief financial officer of the Company, an executive Director, and participated in the negotiation of the Settlement Deed with the Vendor, has abstained from voting on the Board resolution approving the Settlement Deed and the transactions contemplated thereunder (including but not limited to the Share Buy-back), will be required under the Share Buy-back Code and the Listing Rules to abstain from voting on the resolution approving the same at the EGM.

The Takeovers Code IBC and the Listing Rules IBC

The Listing Rules IBC comprising Mr. Chai Chaoming, Dr. Lou Dong and Ms. Lu Hong, being all the independent non-executive Directors, has been established under the Listing Rules to give recommendations to the Independent Shareholders as to how to vote on the resolution to be proposed at the EGM in respect of the Settlement Deed and the transactions contemplated thereunder (including but not limited to the Share Buy-back).

The Takeovers Code IBC comprising Mr. Dai Jianchun, Mr. Chai Chaoming, Dr. Lou Dong and Ms. Lu Hong, being all the non-executive Director and independent non-executive Directors, has been established under the Takeovers Code to give recommendations to the Independent Shareholders as to how to vote on the resolution to be proposed at the EGM in respect of the Share Buy-back and the underlying transactions.

We, Red Sun Capital Limited, have been appointed as the Independent Financial Adviser, with the approval of the Takeovers Code IBC pursuant to the relevant Share Buy-back Code and the Listing Rules IBC pursuant to the relevant Listing Rules, to advise the Takeovers Code IBC and the Listing Rules IBC and the Independent Shareholders on the Settlement Deed and the transactions contemplated thereunder (including but not limited to the Share Buy-back).

OUR INDEPENDENCE

As at the Latest Practicable Date, we are independent from the Company, the Vendor, Xingye, the Guarantors, their respective close associates or core connected persons and any parties acting, or presumed to be acting, in concert with any of them or any company controlled by any of them. As at the Latest Practicable Date, Red Sun Capital Limited did not have any relationship with or interest in, financial or otherwise, the Company or its controlling shareholders, within two years prior to the date of the Announcement, of a kind reasonably likely to create, or to create the perception of, a conflict of interest or reasonably likely to affect our objectivity. In the last two years, there was no engagement between the Group and Red Sun Capital Limited. Apart from normal professional fees paid or payable to us in connection with our appointment as the Independent Financial Adviser, no arrangements exist whereby we have received or will receive any fees or benefits from the Company, the Vendor, Xingye, the Guarantors, their respective close associates or core connected persons and any parties acting, or presumed to be acting, in concert with any of them or any company controlled by any of them. Accordingly, we are considered eligible to give independent advice in relation to the Settlement Deed and transactions contemplated thereunder (including but not limited to the Share Buy-back).

BASIS OF OUR OPINION

In formulating our advice and recommendation, we have relied solely on the statements, information, opinions, beliefs and representations for matters relating to the Group contained in the Circular and the information and representations provided to us by the Group, the Directors and/or its senior management staff (the "**Management**"). We have assumed that all such statements, information, opinions, beliefs and representations contained or referred to in the Circular or otherwise provided or made or given by the Group, the Directors and/or the Management, for which they are solely responsible, were true, accurate and complete in all material respects at the time they were made and given and continue to be true, accurate and complete in all material respects as at the Latest Practicable Date and the Shareholders will be notified of any material changes (if any) subsequent to the Latest Practicable Date as soon as possible in accordance with Rule 9.1 of the Takeovers Code. We have assumed that all the opinions, beliefs and representations for matters relating to the Group made or provided by the Directors and/or the Management contained in the Circular have been reasonably made after due and careful enquiry.

We consider that we have been provided with sufficient information and documents to enable us to reach an informed view and the Management has assured us no material information has been withheld from us to allow us to reasonably rely on the information provided so as to provide a reasonable basis for our advice. We have taken reasonable steps, including but not limited to, reviewed published annual report for the year ended 31 December 2018 and interim report for the six months ended 30 June 2019 of the Group, obtained and reviewed the relevant documents, held discussions with the Management, conducted our own analysis and research in connection with the Settlement Deed and the transactions contemplated thereunder (including the Share Buy-back), with a view to ensure that there is no reason to doubt the truth, accuracy and completeness of the statements, information, opinions, beliefs and representations provided to us by the Group, the Directors and/or the Management and their respective advisers or to believe that material information has been withheld or omitted from the information provided to us or referred to in the aforesaid documents. We have not, however, carried out any independent verification of the information provided, nor have we conducted any independent investigation into the business and affairs of the Company, the Vendor, Xingye, and the Guarantors and their respective shareholder(s) and subsidiaries or affiliates, and their respective histories, experience and track records, or the prospects of the markets in which they respectively operate.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendations, we have taken into account the following principal factors and reasons:

1. Background information of the Group

The Company is an investment holding company and the Group is principally engaged in (i) manufacturing and sales of high precision copper plates and strips; (ii) trading of copper raw materials; (iii) provision of copper products processing services; (iv) the management of a portfolio of investment and development; and (v) operation and distribution of internet and mobile gaming products predominantly in the PRC.

Set out below is a summary of (i) the unaudited consolidated financial statement of profit or loss for the six months ended 30 June 2018 and 2019 as extracted from the interim report of the Group for the six months ended 30 June 2019 (the "**2019 Interim Report**"); and (ii) the audited consolidated financial statement of profit or loss for the years ended 31 December 2017 and 2018 as extracted from the annual report of the Group for the year ended 31 December 2018 (the "**2018 Annual Report**").

	For the six months ended 30 June		**For the year ended 31 December**	
	2019	**2018**	**2018**	**2017**
	(unaudited)	(unaudited)	(audited)	(audited)
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Revenue				
Sales of high precision copper plates and strips	1,819,703	2,240,406	4,448,029	4,004,431
Processing services fees	90,827	89,904	194,857	203,616
Trading of raw materials	22,445	210,611	316,232	245,089
Technical service income	–	149	–	12,572
Publishing and operating online games	15,476	15,879	35,548	28,015
Others	462	348	1,391	1,278
Total revenue	1,948,913	2,557,297	4,996,057	4,495,001
Gross profit	186,461	193,792	418,378	524,434
Profit for the year/ period attributable to Shareholders	54,496	47,730	27,529	135,544

Financial performance for the six months ended 30 June 2019 and 2018

As set out in the 2019 Interim Report, the Group recorded total revenue of approximately RMB1,948.9 million for the six months ended 30 June 2019, representing a decrease of approximately 23.8% or RMB608.4 million as compared to the total revenue of approximately RMB2,557.3 million for the six months ended 30 June 2018. Such decrease was mainly due to a decrease in sales volume of copper products and copper price. The principal source of revenue is the sales of high precision copper plates and strips, which accounted for approximately 93.4% and 87.6% of the total revenue for the six months ended 30 June 2018 and 2019, respectively.

The gross profit of the Group decreased by approximately RMB7.3 million or 3.8% from approximately RMB193.8 million for the six months ended 30 June 2018 to approximately RMB186.5 million for the six months ended 30 June 2019. The lower percentage decrease in gross profit as compared to the percentage decrease in revenue was mainly attributable to the decrease in the cost for raw materials for the high precision copper plates and strips.

The profit for the period attributable to Shareholders increased by approximately RMB6.8 million or 14.2% from approximately RMB47.7 million for the six months ended 30 June 2018 to approximately RMB54.5 million for the six months ended 30 June 2019. Such increase was mainly attributable to the combined effect of (i) the decrease in gross profit as mentioned above; (ii) the increase in other income of approximately HK$4.7 million mainly as a result of additional government grants; (iii) the decrease in other expenses of approximately HK$20.6 million primarily due to the decrease in impairment loss on goodwill; and (iv) the increase in administrative expenses of approximately HK$14.4 million mainly due to the increase in research and development expenses, which was primarily for the technique and quality improvement research programs, and the development of new products, conducted by the Group's provincial-level enterprise technology centre mainly for its high precision copper plates and strips with a view to improve the ongoing competitiveness of the Group's high precision copper plates and strips and related products.

Financial performance for the years ended 31 December 2018 and 2017

As set out in the 2018 Annual Report, the Group recorded total revenue of approximately RMB4,996.1 million for the year ended 31 December 2018, representing an increase of approximately 11.1% or RMB501.1 million as compared to the total revenue of approximately RMB4,495.0 million for the year ended 31 December 2017. Such increase in revenue was mainly due to the increase in sales volume of copper products. The principal source of revenue is from the sales of high precision copper plates and strips, which accounted for approximately 89.1% and 89.0% of the total revenue for the years ended 31 December 2017 and 2018, respectively.

The gross profit of the Group, however, decreased by approximately RMB106.0 million or 20.2% from approximately RMB524.4 million for the year ended 31 December 2017 to approximately RMB418.4 million for the year ended 31 December 2018, which was mainly the result of increase in cost of raw materials.

The profit for the year attributable to Shareholders decreased by approximately RMB108.0 million or 79.7% from approximately RMB135.5 million for the year ended 31 December 2017 to approximately RMB27.5 million for the year ended 31 December 2018. Such increase was mainly attributable to the combined effect of (i) the decrease in gross profit as mentioned above; (ii) the increase in other income of approximately HK$11.9 million mainly as a result of gains from derivative financial instruments; (iii) the increase in other expenses of approximately HK$39.9 million primarily due to the impairment loss on goodwill; and (iv) the increase in administrative expenses of approximately HK$35.0 million mainly due to the increase in research and development expenses.

2. Reasons for and benefits of the Settlement

As set out in the Letter from the Board, given that the performance target for the year ended 31 December 2018 could not be achieved by the Funnytime Group, the Company had been considering different possibilities to deal with the settlement of the Repayment Amount including reducing the Consideration Shares to be allotted to the Vendor by withholding the Unissued Shares, as disclosed in the announcements of the Company dated 15 April 2019 and 16 August 2019. However, as the Vendor had serious difficulties in raising capital on its own to repay the Repayment Amount by cash, the Company considers that the Settlement involving the Share Buy-back and the Unissued Share Cancellation would be an optimal solution for the Vendor to repay the Repayment Amount as it does not extensively call on the funding resources of the Vendor. The terms of the Settlement Deed are also generally in line with the original terms under the SPA given that (i) the sum of the Repayment Amount under the Settlement Deed is equal to the sum required to be repaid by the Vendor under the SPA should the Funnytime Group fail to meet its performance target for the year ended 31 December 2018; (ii) the number of Unissued Shares mirrors the amount of Shares the Company is entitled to withhold under the SPA; (iii) the SPA allows the Company to take action to seek repayment of the Repayment Amount and according to the dispute resolution clause of the SPA, to resolve any disputes between the parties, the parties have to first resolve through consultations for a certain period of time. During such period, the parties have explored various settlement proposals and finally agreed on the settlement arrangement under the Settlement Deed; and (iv) the existing guarantors of the Vendor under the SPA (save for Mr. Tong) continue to act as the Guarantors of the Vendor under the Settlement Deed.

In addition, the Share Buy-back is expected to bring about positive effects on the net asset value per Share attributable to the Shareholders which is in the interests of the Company and the Shareholders as a whole. The Company also believes that it is more favourable and in the interest of the Company and its Shareholders as a whole to resolve the Repayment Amount by way of the Settlement instead of protracted legal proceedings which, although could be taken shortly after 15 April 2019, being the cut-off date on which the Vendor should and the guarantors to the SPA should procure and guarantee the Vendor, to repay the Repayment Amount, could potentially last for an uncertain period of time with unforeseeable cost implications, enforcement outcome and procedural complications as certain parties are located outside Hong Kong, thus potentially causing difficulties in, for instance, the service and discovery of documents and overall conduct of such proceedings. Further, given Mr. Ren and Mr. Yang are also key employees of the Group, resolving the disputes by way of a mutually-agreed settlement is a more amicable solution without adversely affecting the relationship with employees and business operations of the Group.

As set out in the Letter from the Board, in considering to proceed with the Share Buy-back, the Company has taken into consideration that: (i) the Share Buy-back is part and parcel of the Settlement, which is considered an optimal solution for the Vendor to repay the Repayment Amount which does not extensively call on the funding resources of the Vendor and create excessive funding burden; (ii) the Share Buy-back would enhance consolidated net asset value attributable to the Shareholders per Share and basic earnings per Share and bring about other positive financial effects as discussed under the section headed "Financial effects of the Settlement" in the Letter from the Board; (iii) it is a good opportunity for the Company to buy-back and cancel a significant block of Shares in a single transaction without significantly affecting the normal trading of the Shares in terms of price and volume as opposed to conducting a large number of daily on-market buy-back transactions under a general buy-back mandate over a period of time; and (iv) albeit the fact that the Buy-back Price/Cancellation Price of HK$0.80 per Share seemingly represents a premium over the current inactively-traded Share price of approximately HK$0.60, it is highlighted in the paragraph headed "Basis for the Buy-back Price/Cancellation Price" under section headed "The Settlement Deed" in the Letter from the Board that the Buy-back Price/Cancellation Price of HK$0.80 per Share reflects a lower comparative value when compared to a wide array of valuation indicators (i.e. the volume-weighted average Share price for the period starting from 8 August 2016 (being the first trading day after completion of the SPA) and up to and including the Last Trading Day (the period of which covers the time period post-completion to the SPA which the Group operating both the copper processing business and the online gaming business) of HK$0.92 per Share (i.e. the VWAP), the issue price of the Consideration Shares of HK$0.90 per Consideration Share, the unaudited consolidated net asset value attributable to the Shareholders as at 30 June 2019 per Share of approximately HK$1.47 and the fact that the Company's P/B ratio as implied by the Buy-back Price/Cancellation Price is approximately 0.6 times which is significantly below the average P/B ratio of the Comparable Companies of approximately 2.1 times) as disclosed in the Letter from the Board.

Despite the failure by the Funnytime Group in meeting the performance targets under the SPA for the year ended 31 December 2018, the online gaming business operated through the Funnytime Group would still be a part of the Group's principal business. According to the terms of the SPA, the Guarantors, namely Mr. Ren and Mr. Yang, would remain their employment with the Group until June 2021. As disclosed in the announcement of the Company dated 16 August 2019, the Directors were of the view that the failure by the Funnytime Group in achieving the abovementioned performance targets was mainly due to the overall business environment of the game industry in the PRC and the tightened domestic laws and regulations on the online gaming industry, which were unforeseeable to the Vendors at the time when the SPA was entered.

It is the intention of the Company to maintain and uphold the existing operational model of Funnytime, including but not limited to the continuance of the current management team of the Funnytime Group. Going forward, the Company will continue to monitor and review the operating and financial performance of Funnytime from time to time to determine its best course of strategies, positioning and scale of operation which will also take into account the overall strategic development of the Group.

Having considered the information as set out above, in particular (i) the Vendor's lack of available financial resources and its difficulties of capital raising to satisfy the Repayment Amount; (ii) under the Settlement Deed, if consummated, the Group would have greater certainty in terms of timing and actual recoverable amount from the Vendor, compared to the alternative of a protracted legal proceedings, of which the final settlement amount by the Vendor would be uncertain and subject to the financial capability of the Vendor at the relevant time; (iii) the Unissued Share Cancellation and the Share Buy-back, being an integral part of the Settlement, would substantially reduce the Repayment Amount due from the Vendor to approximately HK$2.2 million (i.e. the Residual Repayment Amount), which shall be settled in cash by the Vendor within one month after Completion or before 30 June 2020; (iv) the prolonged negotiation between the parties to the SPA in the past few months without being able to agree on a better suit alternative settlement plan; (v) the expected positive effects on the net asset value attributable to the Shareholders per Share and basic earnings attributable to the Shareholders per Share upon Completion; and (vi) no material cash outflow from the Group in respect of the Unissued Share Cancellation and the Share Buy-back, save for transaction related costs, we concur with the view of the Directors that, albeit not entered into in the ordinary and usual course of business of the Group, the terms of the Settlement Deed and the transactions contemplated thereunder (including but not limited to the Share Buy-back) are fair and reasonable, on normal commercial terms and in the interest of the Company and the Shareholders as a whole. Further analysis on the Settlement Deed by us is set out under section headed "4. Our analysis on the Cancellation Price/Buy-back Price" in this letter below.

3. Principal terms of the Settlement Deed

Subject Matter

On 23 January 2020 (after trading hours), the Company, Xingye, the Vendor, and the Guarantors entered into the Settlement Deed with respect to the settlement of the Repayment Amount owed by the Vendor to Xingye, pursuant to which: (i) the Company shall cancel the issuance of, and be relieved from the obligation to issue the Unissued Shares at the Cancellation Price of HK$0.80 per Share (i.e. the Unissued Share Cancellation); (ii) the Company shall buy back the Sale Shares from the Vendor at the Buy-back Price of HK$0.80 per Share (i.e. the Share Buy-back); and (iii) the Vendor shall repay the Residual Repayment Amount of in cash to the Company (i.e. the Residual Repayment Arrangement).

Date 23 January 2020 (after trading hours)

Parties
(i) the Vendor;
(ii) the Company;
(iii) Xingye; and
(iv) the Guarantors.

The Vendor is a company incorporated in the BVI with limited liability and is beneficially owned by Mr. Ren and Mr. Yang as to 72% and 28%, respectively. The principal business activity of the Vendor is investment holding.

As disclosed in the Letter from the Board, Mr. Ren is the head of the Company's online gaming business. He joined the Group since completion of the SPA in August 2016. Before joining the Group, he had set up various gaming companies, including Hefei Zhangyue Network Technology Co., Ltd. He was also the general manager of the web game division of Shenzhen ZQ, a gaming company which is listed on the Shenzhen Stock Exchange. Mr. Yang is a senior executive of the Company's online gaming business. He joined the Group together with Mr. Ren in August 2016. He also worked in Shenzhen ZQ as an executive of the company's web game division.

As at the Latest Practicable Date, the Vendor is beneficially interested in 44,442,223 Shares, representing approximately 5.19% of the existing issued share capital of the Company. Furthermore, Mr. Ren was a Director within 12 months before the day of the Announcement and a director of one of the subsidiaries of the Company. Accordingly, each of the Vendor and Mr. Ren is a connected person of the Company.

Settlement of the Repayment Amount

On Completion, subject to the satisfaction of the conditions precedent pursuant to the Settlement Deed, the Repayment Amount of HK$40,135,567 owed by the Vendor in favour of the Company shall be fully set off in the manner as follows:

(i) the Vendor shall surrender its entitlement to the issuance of, and the Company shall cancel the issuance of, and be relieved from the obligation to issue, the Unissued Shares at the consideration of the Cancellation Price of HK$0.80 per Unissued Share, totaling HK$5,139,787.20, which amount shall be set off against the equivalent amount of the Repayment Amount (i.e. the Unissued Share Cancellation);

(ii) the Vendor shall sell, and the Company shall purchase, the Sale Shares at the consideration of the Buy-back Price of HK$0.80 per Sale Share, totaling HK$32,800,000, which amount shall be set off against the equivalent amount of the Repayment Amount (i.e. the Share Buy-back); and

(iii) the Vendor undertakes to repay to the Company the Residual Repayment Amount of HK$2,195,779.80 within one (1) month after Completion or before 30 June 2020, whichever is later. Any delay in repayment by the Vendor would be subject to default interest at a daily rate of 0.1% in respect of the accrued amount (i.e. the Residual Repayment Arrangement).

The Sale Shares and the Unissued Shares

The 41,000,000 Sale Shares and 6,424,734 Unissued Shares represent approximately 4.79% and 0.75% respectively of the issued share capital of the Company as at the Latest Practicable Date.

The number of Sale Shares to be bought back is determined by the parties to the Settlement Deed to be the maximum number of Shares to be bought back and cancelled to the extent not to trigger any mandatory general obligation on the part of any of the Shareholder under Rules 26.1(c) and 26.1(d) of the Takeover Code, meaning that none of the Shareholder(s) and/or with his/her/its concert parties would have acquired additional voting rights in the Company that would have the effect of increasing the voting rights in the Company held by such Shareholder(s) and/or his/her/its concert parties by more than 2% from the lowest percentage holding in the 12 month period ending on and inclusive of the date of the Settlement Deed, rounded down to the nearest million number of Shares.

Basis for the Buy-back Price and the Cancellation Price

The Cancellation Price of HK$0.80 per Unissued Share and the Buy-back Price of HK$0.80 per Sale Share were both determined after arm's length negotiations between the parties to the Settlement Deed with reference to, among other things, (i) the VWAP of HK$0.92 per Share; (ii) the issue price of the Consideration Shares of HK$0.90 per Consideration Share; (iii) the unaudited consolidated net asset value attributable to the Shareholders as at 30 June 2019 per Share of approximately HK$1.47; and (iv) the Comparable Companies' P/B ratios as disclosed in the Letter from the Board. The consideration for the Unissued Share Cancellation of HK$5,139,787.20 is the product of the Cancellation Price of HK$0.80 per Unissued Share and the number of Unissued Shares of 6,424,734. The consideration for the Share Buy-back of HK$32,800,000 is the product of the Buy-back Price of HK$0.80 per Sale Share and the number of Sale Shares of 41,000,000.

Conditions precedent

Completion is conditional upon the satisfaction of each of the following conditions precedent:

(i) the Executive having approved the Share Buy-back pursuant to Rule 2 of the Share Buy-back Code (and such approval not having been withdrawn) and the condition(s) of such approval, if any, having been satisfied;

(ii) the passing of the necessary resolutions (if required) at the EGM by poll, including by at least three-fourths of the votes cast by the Independent Shareholders present at the EGM in respect of the Settlement Deed and the transactions contemplated thereunder (including but not limited to the Share Buy-back);

(iii) all consents or approvals of any relevant government authorities or other relevant regulatory bodies which are required by the Vendor for entering into and the implementation of the Settlement Deed and the transactions contemplated thereunder (including but not limited to the Share Buy-back) having been obtained;

(iv) all consents or approvals of any relevant government authorities or other relevant regulatory bodies which are required by the Company for entering into and the implementation of the Settlement Deed and the transactions contemplated thereunder (including but not limited to the Share Buy-back) having been obtained;

(v) the Company having sufficient lawfully available funds to effect the Share Buy-back;

(vi) each of the Warranties remaining true and accurate in all respects up to Completion; and

(vii) the due performance and observance by the Vendor of all its undertakings and obligations under the Settlement Deed.

Save and except for conditions (vi) and (vii) which can be waived unilaterally by the Company, none of the conditions precedent set out above are capable of being waived by the parties to the Settlement Deed. Save and except for conditions (iv) and (v), the Vendor shall use its best endeavours to fulfil all the conditions precedent set out above. If the conditions set out above are not fulfilled on or before the Long Stop Date, the Settlement Deed shall lapse and be of no further effect automatically and thereafter neither party to the Settlement Deed shall have any obligations and liabilities towards each other thereunder save for any antecedent breaches of the terms thereof and for the avoidance of doubt, the obligations of the Vendor under the SPA, including its obligation to repay the Repayment Amount to the Company or Xingye, shall remain effective.

In relation to condition (iv), as at the Latest Practicable Date, the Company confirms that it has sufficient lawfully available funds to effect the Share Buy-back and expects to continue to be so satisfied until Completion.

With reference to conditions (iii) and (iv), as at the Latest Practicable Date, save for the requirements under conditions (i) and (ii), the Company is not aware of any necessary consents or approvals required to be obtained from any relevant government authorities or other relevant regulatory bodies by the Company or the Vendor for entering into and the implementation of the Settlement Deed and the transactions contemplated thereunder (including but not limited to the Share Buy-back). The Company would make necessary disclosure in the circular in the event there are material updates in relation to such requirement.

As at the Latest Practicable Date, none of the above conditions precedent has been fulfilled.

Completion

Completion is expected to take place on the third Business Day after satisfaction of the above conditions precedent which, in the absence of any unforeseeable circumstances, is expected to be within one month after the date of the EGM.

Immediately upon Completion, the Company shall cancel the Sale Shares and the issuance of the Unissued Shares and be relieved from the obligation of such issuance, and any rights attaching thereto shall cease with effect from Completion. The Unissued Share Cancellation, the Share Buy-back and the Residual Repayment Arrangement shall take place simultaneously.

4. Our analysis on the Cancellation Price/Buy-back Price

Set out below is how the Repayment Amount shall be satisfied under the Settlement Deed and a simplified calculation of Residual Repayment Amount.

	HK$
Repayment Amount	40,135,567.00
Less: The value of Unissued Shares	(5,139,787.20)
Less: The value of Sale Shares	(32,800,000.00)
Residual Repayment Amount	2,195,779.80

4.1 Analysis on the Cancellation Price

As disclosed in the Letter from the Board, the Cancellation Price is HK$0.8 per Unissued Share was determined after arm's length negotiations between the parties to the Settlement Deed.

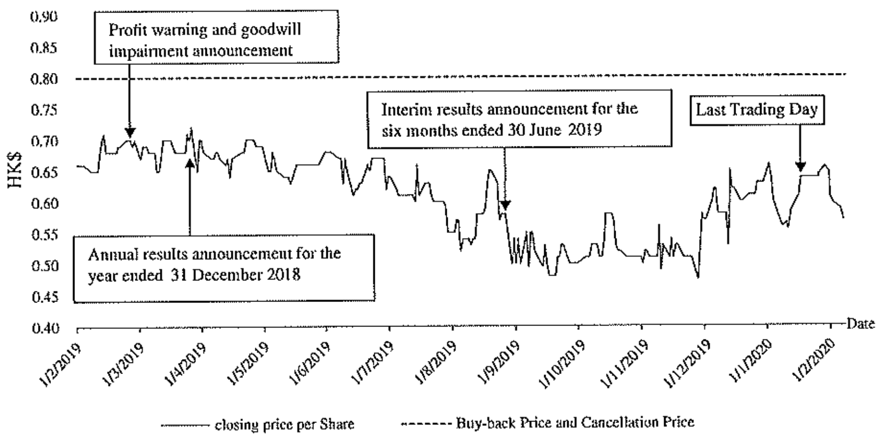
We note that the Cancellation Price of HK$0.8 per Unissued Share represented a discount of approximately 11.1% to the original issue price of Consideration Shares of HK$0.9 per Share. Pursuant to the SPA, the Company is obligated, but is not voluntary, to issue 6,424,734 Shares to the Vendor on 15 April 2019. As advised by the Management, given that the Vendor has difficulties in capital raising to settle the Repayable Amount, the issuance of such Shares is being withheld.

For reasons as further set out under paragraph headed "4.3 Analysis on the Comparable Transactions" in this letter below, including our analysis on the Comparable Transactions (defined hereafter) selected based on specified criteria, in particular, two of the Comparable Transactions, being the share buy-back conducted by Alpha Professional Holdings Limited and New Silkroad Culturaltainment Limited respectively, both are considered to be similar transactions to the Company's Share Buy-back as they were all linked to a previous acquisition, whereby part/whole of the consideration was settled by the issuance of consideration shares. Under the aforesaid two Comparable Transactions, the buy-back prices were higher than the respective closing share price of the subject listed company at the relevant time, and were both determined with reference to and being equivalent to the issue price of the consideration share (i.e. the Basis of Buy-back Price (defined hereafter)), but not determined with reference to the then prevailing share prices of the subject companies. As such, we considered the original issue price of HK$0.9 per Share to be an appropriate benchmark for assessing the fairness and reasonableness of the Cancellation Price of the Unissued Share and that if these Unissued Shares were to be issued to the Vendor instead of being cancelled, the Unissued Shares would have been issued at the issue price of HK$0.9 per Share. Nonetheless, in addition to the analysis above, we also conducted further analysis to assess the fairness and reasonableness of the Buy-back Price, which is equivalent to the Cancellation Price below.

4.2 Analysis on the Buy-back Price

Closing price per Share over the Review Period

Set out below is a chart setting out movements in the closing prices of the Shares as quoted on the Stock Exchange from 1 February 2019 up to and including the Latest Practicable Date (the "**Review Period**"), which is considered to be a reasonable period of time to provide a general overview of the recent price performance of the Shares.



As shown >in the chart above, the closing prices of the Shares fluctuated between HK$0.475 and HK$0.720 with an average quoted price of approximately HK$0.608 during the Review Period. It is noted that the Buy-back Price is above the closing prices of the Shares during the Review Period. The Buy-back Price of HK$0.8 represents a premium of approximately 31.6% to the average closing price of the Shares during the Review Period.

In addition, the Buy-back Price of approximately HK$0.80 per Sale Share also represents:

(i) a premium of approximately 40.4% over the closing price of HK$0.57 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

(ii) a premium of approximately 25.0% over the closing price of HK$0.64 per Share as quoted on the Stock Exchange on the Last Trading Day, being the date of the Settlement Deed;

(iii) a premium of approximately 31.1% over the average of the closing prices of the Shares as quoted on the Stock Exchange for the last 30 trading days up to and including the Last Trading Day of approximately HK$0.61 per Share;

(iv) a premium of approximately 45.5% over the average of the closing prices of the Shares as quoted on the Stock Exchange for the last 90 trading days up to and including the Last Trading Day of approximately HK$0.55 per Share;

(v) a discount of approximately 11.1% to the issue price of the Consideration Shares of HK$0.9 per Consideration Share;

(vi) a discount of approximately 45.6% to the unaudited consolidated net asset value attributable to the Shareholders of approximately HK$1.47 per Share (or approximately RMB1.29 per Share based on an exchange rate of RMB0.8797: HK$1) (based on the audited consolidated net assets attributable to the Shareholders as at 30 June 2019 of approximately RMB1,106.6 million (equivalent to approximately HK$1,257.9 million based on an exchange rate of RMB0.8797: HK$1) and 855,558,173 Shares in issue as at the Latest Practicable Date; and

(vii) a discount of approximately 42.9% to the audited consolidated net asset value attributable to the Shareholders of approximately HK$1.40 per Share (or approximately RMB1.23 per Share based on an exchange rate of RMB0.8762: HK$1) (based on the audited consolidated net assets attributable to the Shareholders as at 31 December 2018 of approximately RMB1,051.9 million (equivalent to approximately HK$1,200.5 million on an exchange rate of RMB0.8762: HK$1) and 855,558,173 Shares in issue as at 31 December 2018.

Historical liquidity of the Shares

Further to our analysis on the closing Share price over the Review Period, we also conducted analysis on the historical liquidity of the Shares. The following table sets out the number of trading days in each month, the monthly total trading volume, the average daily trading volume and the percentage of average daily trading volume as compared to the total number of Shares in issue held by the public Shareholders during the Review Period:

	Number of trading days	**Total trading volume**	**Average daily trading volume**	**Approximate percentage of average daily trading volume to total number of Shares held by the public Shareholders** *(Note 1)*
2019				
February *(Note 2)*	17	822,666	48,392	0.01%
March	21	1,015,300	48,348	0.01%
April	19	2,173,200	114,379	0.03%
May	21	454,300	21,633	0.01%
June	19	1,094,200	57,589	0.01%
July	22	1,770,000	80,455	0.02%
August	22	2,970,100	135,005	0.04%
September	21	2,651,400	126,257	0.03%
October	21	554,000	26,381	0.01%
November	21	681,000	32,429	0.01%
December	20	1,559,100	77,955	0.02%
2020				
January	20	1,161,000	58,050	0.02%
February *(Note 3)*	7	79,000	11,286	Less than 0.01%
Average for the Review Period	**19**	**1,306,559**	**64,474**	**0.02%**

Source: *the website of the Stock Exchange*

Notes:

(1) *Based on total issued Shares as at the Last Trading Day of 855,558,173 Shares, excluding the Shares held by Hu Changyuan, Hu Minglie, Hu Mingda, Charity Foundation, trustee of the Share Award Scheme, the Vendor, Mr. Ren, Mr. Yang, Bostone, Mr. Zhu and other directors of the Group (together the "**Connected Persons**").*

(2) *The Review Period commenced on 1 February 2019.*

(3) *The Review Period is up to and including 11 February 2020, being the Latest Practicable Date.*

The above table indicated that during the Review Period, the average daily trading volume of the Shares as a percentage of the total number of the Shares held by the public Shareholders (i.e. other than Shares held by the Connected Persons) ranged from less than 0.01% (February 2020) to approximately 0.04% (August 2019) with an average of approximately 0.02%. The above statistics indicated that trading volume in the Shares was very thin during the Review Period and Shares were illiquid in the open market during the Review Period. As such, if the Company were to allow the Vendor to dispose the Shares it holds in the open market instead of conducting the Share Buy-back, such disposal would take a lengthy period of time, during such period the Company would subject to further uncertainty. Given the thin trading volume of the Shares, the disposal of 41,000,000 Sale Shares may impact the supply and demand of the Shares in the open market, thereby creating an imbalance, which may not be in the interests of the other existing Shareholders.

For illustration purposes, having considered the total number of Sale Shares of 41,000,000 Shares and based on the average historical daily trading volume during the Review Period of approximately 64,474 Shares as set out in the above table, it would take the open market approximately 636 trading days to absorb the 41,000,000 Sale Shares. As per the website of the Stock Exchange, there were 246 trading days in year 2019, considering the aforesaid approximately 636 trading days being over 2.5 times the number of trading days in year 2019, we are of the view that it is impracticable to allow the Vendor a prolonged period to dispose all of the Sale Shares in the open market and use the proceeds raised thereunder and the Unissued Share Cancellation to settle a significant portion of the Repayment Amount as such would create significant uncertainty for the Company in respect of the Repayment Amount over a lengthy period of time based on the aforesaid analysis.

Furthermore, given the limited historical liquidity of the Shares, an increase in trading volume in a short period of time may cause material fluctuations to the Share price, as evidenced by, among others, (i) the notable decrease in closing Share price from HK$0.65 per Share on 23 August 2019 to HK$0.50 per Share on 2 September 2019 within six trading days with approximately 1.3 million Shares traded during the aforesaid period; and (ii) the notable increase in closing Share price from HK$0.475 per Share on 2 December 2019 to HK$0.62 per Share on 10 December 2019 within six trading days with approximately 0.3 million Shares traded during the aforesaid period. On this basis, we considered the closing Share price as a benchmark to assess the Buy-back Price, if analysed on a standalone, has its limitations, and that other benchmarks may be more appropriate.

Net asset value ("NAV") per Share

In view of the above analysis, we have also considered conducting analysis on price-to-earnings ratio and price-to-book ratio, both being commonly used valuation indicators. However, we have noted that the Company's earnings have experienced significant fluctuations during the years ended 31 December 2016, 2017 and 2018, being the three financial years immediately preceding the entering into of the Settlement

Deed, it is therefore considered inappropriate to use price-to-earnings ratio or other earnings-based valuation indictors to assess the fairness and reasonableness of the Buy-back Price/Cancellation Price. As for the suitability of the price-to-book ratio, having considered that (i) the analysis on P/B ratio is more suitable for capital intensive businesses; and (ii) the size of the Group's operations and its total assets balance, which mainly comprised of property, plant and equipment and inventories, as well as the nature of the copper processing business, which indicated that the Group's business is capital intensive in nature, we concur with the Board that P/B ratio comparison is an appropriate approach to assess the fairness and reasonableness of the Buy-back Price/ Cancellation Price.

In this connection, we have primarily focused our analysis on the implied price-to-book ratio (the "**P/B Ratio**") based on the Buy-back Price/Cancellation Price and the NAV attributable to Shareholders as at 31 December 2018 and 30 June 2019 in this section, the summary of which are set out below:

	NAV per Share *(Note 1&2)* *(HK$)*	**Buy-back Price/ Cancellation Price to NAV per Share (i.e. implied P/B Ratio)** *(Note 3)* *(times)*
Unaudited NAV attributable to Shareholders as at 30 June 2019	1.47	0.54
Audited NAV attributable to Shareholders as at 31 December 2018	1.40	0.57

Notes:

(1) *The functional currency of the Group is RMB. For illustrative purposes in relation to this table, conversion of RMB into HK$ in relation to the NAV attributable to Shareholders, which are denominated in RMB, are calculated at the approximate exchange rate of RMB0.8797 to HK$1 as at 30 June 2019 and approximate exchange rate of RMB0.8762: HK$1 as at 31 December 2018. The exchange rates are for illustration purpose only and do not constitute a representation that any amounts have been, could have been, or may be exchanged at this or any other rate at all.*

(2) *The NAV per Share as at 30 June 2019 and 31 December 2018 was calculated based on (i) unaudited NAV attributable to Shareholders as at 30 June 2019 of approximately RMB1,106.6 million (equivalent to approximately HK$1,257.9 million) divided by number of issued Shares of 855,558,173 as at 30 June 2019; and (ii) audited NAV attributable to Shareholders as at 31 December 2018 of approximately RMB1,051.9 million (equivalent to approximately HK$1,200.5 million) divided by number of issued Shares of 855,558,173 as at 31 December 2018.*

(3) *The implied P/B Ratio was calculated based on the Buy-back Price/Cancellation Price of HK$0.8 per Share divided by the NAV per Share of approximately HK$1.47 and HK$1.40 as at 30 June 2019 and 31 December 2018, respectively.*

As set out in the table above, the NAV per Share was approximately HK$1.40 per Share and HK$1.47 per Share as at 31 December 2018 and 30 June 2019, respectively. The Buy-back Price and Cancellation Price represented an implied P/B Ratio of approximately 0.57 times to 0.54 times, respectively, such implied P/B Ratios are lower than the bottom range of the P/B Ratio of the Comparable Companies of approximately 0.96 times to 3.20 times as set out in the Letter from the Board, indicating that each of the Buy-back Price and Cancellation Price is no less favourable than the prevailing trading share price of the Comparable Companies as at the Last Trading Day, from the perspective of the P/B Ratio. Furthermore, as the Buy-back Price is notably lower than the aforesaid NAV per Share, the Share Buy-back shall result in a NAV per Share enhancement.

As set out in the Letter from the Board, the selection criteria of the Comparable Companies are companies listed in Hong Kong and the PRC with 70% or more of their respective revenue derived from copper processing. After our discussion with the Management, we understand that such criteria were determined on the basis that the Comparable Companies would, in general, be subject to similar opportunities, risks and factors affecting the copper processing industry as a whole and we concur with their view that the Comparable Companies can provide a general reference for comparison purposes to the implied P/B Ratio of the Company under the Buy-back Price/ Cancellation Price.

4.3 Analysis on the Comparable Transactions

We have also reviewed and conducted analysis on transactions which (i) were announced by companies listed on the Main Board of the Stock Exchange during the Review Period; and (ii) constituted off-market share buy-back transactions pursuant to Rule 2 of the Buy-back Code (together the "**Criteria**"). Based on the Criteria, on a best-effort basis, we have identified an exhaustive list of four comparable transactions (the "**Comparable Transactions**"). Details of the Comparable Transactions are summarised below.

Company name (stock code)	Date of initial transaction announcement	Share buy-back price *(HK$)*	Share price as at the last trading date *(HK$)*	Premium of the share buy-back price over the share price as at the last trading date at the relevant time	Summary of the reasons for the share buy-back as stated in the relevant announcement
China Development Bank Financial Leasing Co., Ltd. ("**CDBFL**") (1606)	26 September 2019	2.2443	1.4000	60.3%	To comply with certain regulations and implementing measures issued by the China Banking Regulatory Commission of the PRC
Alpha Professional Holdings Limited ("**Alpha Professional**") (948)	18 September 2019	1.8570	1.6300	13.9%	In relation to a previous acquisition, to unwind the transaction due to a triggering event involving potential breaches of certain warranties and undertakings in the sale and purchase agreement
Tern Properties Company Limited ("**Tern Properties**") (277)	16 May 2019	5.1000	3.9700	28.5%	To restore the public float of the shares of Tern Properties pursuant to the Listing Rules

Company name (stock code)	Date of initial transaction announcement	Share buy-back price *(HK$)*	Share price as at the last trading date *(HK$)*	Premium of the share buy-back price over the share price as at the last trading date at the relevant time	Summary of the reasons for the share buy-back as stated in the relevant announcement
New Silkroad Culturaltainment Limited ("New Silkroad") (472)	2 May 2019	1.3000	0.4500	188.9%	In relation to a previous acquisition, to unilaterally exercise its rights to unwind the transaction due to a triggering event whereby the acquired company was unable to obtain the necessary licenses to continue its business
			Maximum	188.9%	
			Minimum	13.9%	
			Average	72.9%	
The Company				25.0%	

Based on the table above, all the share buy-back price under the respective Comparable Transactions exceeded the subject closing share price as at the last trading day, such premium ranged from approximately 13.9% to 188.9%, with an average premium of approximately 72.9%. The premium of the Buy-back Price to the closing Share price as at the Last Trading Day under the Share Buy-back was approximately 25.0%, which is towards the bottom range and below the average of the Comparable Transactions.

We considered that given the Comparable Transactions were selected based on the Criteria, they are considered to be an appropriate benchmark for assessing off-market share buy-backs under Rule 2 of the Buy-back Code as a whole due to (i) the Settlement Deed and the transactions contemplated thereunder and all the Comparable Transactions are subject to Rule 2 of the Buy-back Code; (ii) although the reasons for conducting the respective off-market buy-back transactions may vary, the fact that they are subject to Rule 2 of the Buy-back Code may provide insights to the fairness and reasonableness of the Buy-back Price and Cancellation Price; and (iii) all of the Comparable Transactions are recently announced, which provides an insight into the prevailing market practice.

In addition, we also conducted further work on each of the Comparable Transactions and assessed the reasons behind each Comparable Transactions' off-market share buy-back. Based on our analysis, we noted that while the off-market share buy-back by CDBFL and Tern Properties were standalone transactions as a result to comply with the relevant PRC regulations and Listing Rules, respectively, the off-market share buy-back by Alpha Professional and New Silkroad were similar to the Company's current Share Buy-back, as they were all linked to a previous acquisition, whereby part/whole of the consideration was settled by the issuance of consideration shares, subsequent to which, the subject consideration shares were subject to buy-back by the listed company from the vendor.

Upon further analysis into the off-market share buy-back conducted by Alpha Professional and New Silkroad, we noted that (i) the off-market share buy-back by Alpha Professional were to unwind the original acquisition due to the vendor's failure to remedy certain breaches of the subject sale and purchase agreement; and (ii) the off-market share buy-back by New Silkroad were conducted due to certain non-fulfilment of obligations on the vendor's part, each of the events under (i) and (ii) is individually a triggering event. In view of the above, we have performed further analysis on the share buy-back by Alpha Professional and New Silkroad and noted that Alpha Professional and New Silkroad's buy-back price were both determined with reference to and being equivalent to the issue price of the consideration share (the "**Basis of Buy-back Price**"), which are consistent with one of the reference points for determining the Buy-back Price under the Share Buy-back, namely, the issue price of the Consideration Shares of HK$0.90 per Consideration Share. However, in the Company's case, the Directors were able to negotiate a discount to the original issue price of the Consideration Shares. As such, the Buy-back Price and Cancellation Price are on terms more favourable to the Company on the basis that the Buy-back Price and Cancellation Price: (i) are determined at a discount to the original issue price of the Consideration Shares; and (ii) represent a lower premium (25.0%) when compared to the average premium (72.9%) of the Comparable Transactions, the details of which are set out in the table above.

Furthermore, we have conducted additional market research with a view to determine whether the Basis of Buy-back Price is a common market practice. During the Review Period, we have identified two other listed companies, namely Xinhua News Media Holdings Limited ("**Xinhua News Media**") (stock code: 309) and China Biotech Services Holdings Limited ("**China Biotech Services**") (stock code: 8037), whereby each of Xinhua News Media and China Biotech Services conducted an acquisition, the subject consideration of which was settled by way of issuance of consideration shares, such consideration shares are also subject to buy-back by the listed company in the event of the occurrence of certain non-fulfilment of obligations on the vendor's part (i.e. a triggering event). According to the published information, if such buy-back were to materialise, the respective buy-back prices would be equivalent to the issue price of the consideration shares (i.e. being in line with the Basis of Buy-back Price).

In summary, (i) the buy-back price under the subject acquisition conducted by Alpha Professional was not set out in the subject sale and purchase agreement as per Alpha Professional's published transaction announcement, which is similar to the Company's case; and (ii) the respective buy-back prices or their basis of determination under the subject acquisition conducted by each of New Silkroad, Xinhua News Media and China Biotech Services were set out in the subject sale and purchase agreements as per the respective published transaction announcements, which is dissimilar to the Company's case, where the Buy-back Price was not specifically set out in the SPA, nonetheless we consider the above analysis to be relevant and meaningful as it further supports that the Basis of Buy-back Price is in line with market practice. In this connection, we considered the Basis of Buy-back Price (i.e. the buy-back price being equivalent to the issue price of the consideration share) to be in line with market practice.

Having considered the above factors, including, among others, (i) the Cancellation Price is lower than the original issue price of the Consideration Shares; (ii) the Buy-back Price is at notable discount to the consolidated NAV per Share; (iii) we are given to understand that the Vendor had serious difficulties in raising capital on its own to repay the Repayment Amount and it would be impracticable given the historical low trading volume of the Shares for the Vendor to raise funds via disposal of the Sale Shares in the open market together with the Unissued Share Cancellation in order to settle a significant portion of the Repayment Amount; (iv) the P/B Ratio represented by the Buy-back Price was notably below the average P/B Ratio of the Comparable Companies; (v) although the Buy-back Price represented a premium over the Share price as at the Last Trading Day, such premium is below the average premium of share buy-back price over the closing share price as at the last trading day of the Comparable Transactions; and (vi) the Basis of Buy-back Price (i.e. being equivalent to the original issue price of the consideration shares) is in line with market practice and given that each of the Cancellation Price and the Buy-back Price represent a discount to the original issue price of the consideration shares, which translates into a higher Residual Repayment Amount than if the Cancellation Price and the Buy-back Price were to be set at the original issue price per Consideration Share of HK$0.90, such is considered to be on normal commercial terms or better, therefore we are of the view that the Cancellation Price and the Buy-back Price are fair and reasonable.

5. Effects on the shareholding interest of Shareholders

As illustrated in the shareholding table under the section headed "Effects on The Shareholding Structure of the Company" in the Letter from the Board, immediately after completion of the Share Buy-back and the Unissued Share Cancellation and assuming there is no other change in the issued share capital of the Company between the Latest Practicable Date up to Completion, the shareholding interest of the other public Shareholders would increase from approximately 43.19% to 45.36%. As such, the Settlement would result in an increase in public float of the Company in terms of percentage shareholding interests in the public's hands.

Furthermore, as set out in the section headed "Potential financial effects of the Settlement" in the Letter from the Board, (i) no cash outflow or payment is to be made by the Company upon Completion; and (ii) the consolidated net asset value attributable to the Shareholders per Share would increase.

Taken into the effects stated above, we concur with the Directors' view that the entering into the Settlement Deed is in the interest of the Shareholders and the Company as a whole.

6. Potential financial effects of the Settlement

As set out in the Letter from the Board, the followings are the financial effects of the Settlement Deed and the transactions contemplated thereunder (including but not limited to the Share Buy-back) on the financial performance and the financial position of the Group.

Net assets per Share

Assuming Completion had taken place on 30 June 2019, the consolidated net asset value attributable to the Shareholders would decrease by approximately RMB27.4 million, on a per Share basis would increase the unaudited consolidated net asset value attributable to the Shareholders as at 30 June 2019 per Share by approximately 2.33% from approximately RMB1.29 per Share to approximately RMB1.32 per Share.

Basic earnings per Share

Assuming that the Completion had taken place on 1 January 2018 and the Sale Shares have been bought back in full and cancelled, the Company's basic earnings per Share for the year ended 31 December 2018 would have increased by approximately 33.3% from approximately RMB0.03 per Share to approximately RMB0.04 per Share.

Total liabilities

As the Settlement is expected to eliminate the contingent payable associated with the Unissued Shares currently accounted for as liabilities on the financial statements of the Company (although marginally offset by the creation of transactions costs payable), assuming Completion had taken place on 30 June 2019, Completion would reduce the liabilities of the Group as at 30 June 2019 from approximately RMB1,329.7 million to approximately RMB1,327.3 million, being a reduction of approximately RMB2.4 million.

Working capital

Since the total consideration for the Unissued Share Cancellation and the Share Buy-back would be satisfied by setting off against most of the Repayment Amount, there would be no Shares to be issued to the Vendor and no cash outflow or payment to be made by the Company to the Vendor for the purpose of Completion, the Company is therefore expected to be able to meet its working capital requirements and pay its debts as they fall due in the ordinary course of its business.

Based on the above, the Company considers that the Share Buy-back will have no material adverse effect on the Company's net assets per Share, basic earnings per Share, total liabilities and working capital.

RECOMMENDATION

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

(i) the Settlement Deed is a practical solution considering the difficulties faced by the Vendor in raising capital to settle the Repayable Amount and such would enable the Group to avoid a potentially protracted legal proceedings between the Vendor and the Group;

(ii) the Cancellation Price is lower than the issue price of HK$0.9 per Share pursuant to the SPA;

(iii) the Buy-back Price represents a notable discount to the unaudited net asset value attributable to the Shareholders as at 30 June 2019 per Share of approximately HK$1.47, as such, the Share Buy-back shall result in an increase in the consolidated net asset value attributable to the Shareholders per Share upon Completion;

(iv) the implied P/B ratio of the Company under by the Buy-back Price is notably lower than the average P/B ratio of the Comparable Companies;

(v) the Buy-back Price represented a premium of approximately 25.0% over the closing price of HK$0.64 per Share as at the Last Trading Day, which is towards the bottom range and below the average premium of closing share price over the share price as at the last trading day of the Comparable Transactions;

(vi) the Basis of Buy-back Price, whereby the buy-back price is equivalent to the original issue price of the consideration shares, is considered to be in line with market practice, and the Buy-back Price, which represented a discount of approximately 11.1% to the issue price of the Sale Shares and Cancellation Shares, thus each of the Cancellation Price and the Buy-back Price is considered to be on normal commercial terms or better;

(vii) save for the Vendor, the respective existing Shareholders' equity interest in the Company would be increased upon completion of the Unissued Share Cancellation and the Share Buy-back, and

(viii) the Settlement Deed and the transactions contemplated thereunder would not have a material effect on the consolidated net asset and working capital of the Group, we are of the view that, albeit the Settlement Deed is not entered into in the ordinary and usual course of business of the Group, the terms of the Settlement Deed are normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and in the interest of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders, as well as the Takeovers Code IBC and the Listing Rules IBC to advise the Independent Shareholders, to vote in favour of the relevant resolution to be proposed in the EGM to approve the Settlement Deed and the transactions contemplated thereunder (including but not limited to the Share Buy-back).

Yours faithfully
For and on behalf of
Red Sun Capital Limited

Lewis

Lewis Lai
Managing Director

Mr. Lewis Lai is a licensed person registered with the SFC and a responsible officer of Red Sun Capital Limited to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and has over 13 years of experience in the corporate finance industry.