



SOMERLEY CAPITAL LIMITED

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8 March 2024

To: The Independent Board Committee and the Independent Shareholders

Dear Sirs,

**VOLUNTARY CONDITIONAL CASH OFFER BY
BNP PARIBAS SECURITIES (ASIA) LIMITED AND
CHINA INTERNATIONAL CAPITAL CORPORATION HONG KONG
SECURITIES LIMITED FOR AND ON BEHALF OF THE OFFEROR FOR
ALL THE ISSUED SHARES OF VINDA INTERNATIONAL HOLDINGS
LIMITED (OTHER THAN THOSE ALREADY OWNED BY THE
OFFEROR AND THE OFFEROR CONCERT PARTIES)**

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in connection with the Offer. The terms of the Offer are set out in the Composite Document dated 8 March 2024 (the “**Composite Document**”), of which this letter forms a part. Terms used in this letter shall have the same meaning as those defined in the Composite Document unless the context requires otherwise.

On 15 December 2023, the Offeror and the Company jointly announced that BNPP and CICC would, on behalf of the Offeror, subject to the satisfaction or waiver (as applicable) of the Pre-Conditions, make a voluntary conditional cash offer to acquire all the issued Shares (other than those already owned by the Offeror and the Offeror Concert Parties). This announcement included disclosure of the Irrevocable Undertakings as detailed below, covering approximately 72.62% of the issued Shares as at the Latest Practicable Date. On 4 March 2024, the Offeror and the Company jointly announced that all Pre-Conditions had been satisfied.



Subject to the Offer becoming unconditional and satisfaction of the requirements under the Companies Act and the Takeovers Code, the Offeror intends to privatise the Company by exercising its right under section 88 of the Companies Act to compulsorily acquire Offer Shares not acquired by the Offeror under the Offer if, within four months after the date of this Composite Document, it has acquired not less than 90% of the Offer Shares. On completion of the compulsory acquisition (if applicable), the Company will become a wholly-owned subsidiary of the Offeror and an application will be made for the withdrawal of the listing of the Shares from the Stock Exchange pursuant to Rule 6.15 of the Listing Rules.

In the event the Offeror does not effect the compulsory acquisition of the remaining Offer Shares not acquired by the Offeror under the Offer by reason of the level of acceptances of the Offer not reaching the prescribed threshold under the Companies Act or the Takeovers Code, the directors of the Offeror and the new directors to be appointed to the Board have jointly and severally undertaken to the Stock Exchange to take appropriate steps to ensure that sufficient public float exists in the Shares.

An Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Tsui King Fai, Mr. Wong Kwai Huen, Albert, Mr. Law Hong Ping, Lawrence and Dr. Cao Zhenlei, has been established in accordance with Rules 2.1 and 2.8 of the Takeovers Code to advise and give a recommendation to the Independent Shareholders as to whether the terms of the Offer are fair and reasonable and as to the acceptance of the Offer. Mr. Johann Christoph Michalski, Mr. Jan Christer Johansson, Mr. Carl Magnus Groth and Mr. Carl Fredrik Stenson Rystedt, the non-executive Directors, are either appointed by Essity or are ex-employees of Essity and therefore are not eligible to form part of the Independent Board Committee. In accordance with Rule 2.1 of the Takeovers Code, the Independent Board Committee has approved our appointment as the independent financial adviser to the Independent Board Committee.

We are not associated or connected with the Company, or the Offeror, or their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them and, accordingly, are considered eligible to give independent advice on the Offer. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company, or the Offeror, or their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them.



In formulating our opinion, we have relied on the information and facts supplied, and the opinions expressed, by the Directors and management of the Group, which we have assumed to be true, accurate and complete in all material aspects. We have reviewed, among other things, (i) the annual report of the Company for the year ended 31 December 2022 (the “**2022 Annual Report**”), and the annual results announcement of the Company for the year ended 31 December 2023 (“**FY2023**”) (the “**2023 Annual Results**”, together with the 2022 Annual Report, the “**Annual Reports**”), (ii) the trading performance of the Shares on the Stock Exchange, and (iii) other information contained in the Composite Document. We have sought and received confirmation from the Directors that no material facts have been omitted from the information supplied and opinions expressed to us. We consider that the information we have received is sufficient for us to reach our opinion and give our advice and recommendation set out in this letter. We have no reason to believe that any material information has been omitted or withheld, or to doubt the truth or accuracy of the information provided. We have not, however, conducted any independent investigation into the business and affairs of the Group, the Offeror or any of their respective associates or any party acting, or presumed to be acting, in concert with any of them, nor have we carried out any independent verification of the information supplied. We have also assumed that all representations contained or referred to in the Composite Document in which this letter forms a part, were true at the time they were made and at the date of the Composite Document, and Shareholders will be informed of any future material change (including but not limited to our advice, opinion or recommendation set out in this letter) as soon as possible.

We have not considered the tax and regulatory implications on Independent Shareholders of acceptance or non-acceptance of the Offer, since these depend on their individual circumstances. In particular, Independent Shareholders who are residents overseas or subject to overseas taxes or Hong Kong taxation on securities dealings should consider their own tax positions and, if in any doubt, should consult their own professional advisers.

PRINCIPAL TERMS OF THE OFFER

BNPP and CICC are making the Offer for and on behalf of the Offeror to acquire all the Offer Shares on the following basis:

The Offer

For each Offer Share HK\$23.50 in cash



If after the date of this Composite Document, any dividend, distribution and/or return of capital is announced, declared, made and/or paid in respect of the Shares, the Offeror reserves the right to reduce the Offer Price by the gross amount of the dividend, distribution and/or return of capital paid or made by the Company in respect of each Offer Share to such Shareholders who accept or have accepted the Offer, and, unless otherwise specified or the context otherwise requires, any reference in the Joint Announcement, this Composite Document or any other announcement in relation to the Offer Price will be deemed to be a reference to the Offer Price as so reduced by the amount of such dividend, distribution and/or return of capital declared, made or paid per Offer Share. Any such reduction will only apply to those Offer Shares in respect of which the Offeror will not be entitled to the relevant dividend, distribution and/or return of capital. As stated in the announcement of the Company dated 24 January 2024 in relation to the final results for FY2023, the Board has resolved not to declare a final dividend for FY2023.

The Offer Shares to be acquired under the Offer shall be fully paid and shall be acquired free from any mortgage, charge, pledge, lien, equities, hypothecation or other encumbrance, priority or security interest, deferred purchase, title retention, leasing, sale-and-repurchase or sale-and-leaseback arrangement, rights of pre-emption and any other third party rights of any nature or any agreement for any of the same and together with all rights attaching to them as at the Closing Date or subsequently becoming attached to them, including the right to receive in full all dividends and other distributions, if any, the record date of which is on or after the Closing Date. Any dividends or other distributions the record date of which is before the Closing Date will be paid by the Company to the Shareholders who are qualified for such dividends or distributions.

As at the Latest Practicable Date, the Company does not have outstanding dividends which have been declared but not yet paid. The Company has no intention to declare any dividend before the close of the Offer.

Value of the Offer

As at the Latest Practicable Date, there were 1,203,285,373 Shares in issue. On the basis of the Offer Price of HK\$23.50 per Offer Share and 1,203,285,373 Shares in issue as at the Latest Practicable Date, the entire issued share capital of the Company would be valued at approximately HK\$28,277.2 million.

Assuming no new Shares are issued after the Latest Practicable Date, based on the Offer Price of HK\$23.50 per Offer Share and 1,110,747,273 Offer Shares, the maximum consideration for the Offer would be approximately HK\$26,102.56 million.



Irrevocable Undertakings

On 14 December 2023, each of Essity GH and Mr. Li entered into an Irrevocable Undertaking in favour of the Offeror, pursuant to which each of Essity GH and Mr. Li undertook to accept or procure the acceptance of the Offer in accordance with its terms in respect of the Essity Undertaking Shares and the Li Undertaking Shares respectively. The Essity Undertaking Shares and the Li Undertaking Shares collectively represent an aggregate of approximately 72.62% of the issued share capital of the Company as at the Latest Practicable Date.

Mr. Li is the Chairman and founder of the Group, and a substantial shareholder of the Company holding approximately 21.04% of the issued share capital of the Company as at the Latest Practicable Date.

Essity GH, a company established under the laws of the Netherlands, is a subsidiary of Essity and a substantial shareholder of the Company holding approximately 51.59% of the issued share capital of the Company as at the Latest Practicable Date. Essity listed on NASDAQ Stockholm in 2017. Based on its 2022 annual report, Essity operates in three business areas comprising: (i) consumer goods including incontinence products, baby care, feminine care and consumer tissue; (ii) professional hygiene including tissue, services & solutions and wiping & cleaning as well as soaps & sanitizers; and (iii) health & medical including incontinence products health care and medical solutions.

Please refer to the section headed “IRREVOCABLE UNDERTAKINGS” in the letter from BNPP and CICC of the Composite Document for further details of the Irrevocable Undertakings.

Option to enter into New Licence Agreement

As disclosed in the letter from BNPP and CICC in the Composite Document, under the terms of the Licence Agreement, Essity HH has the right to terminate certain licences granted to the Company under the Licence Agreement if the aggregate shareholding of all members of the Essity Group in the Company drops to 50% or below by giving three (3) years' notice to the Company. Essity HH has expressed its intention to exercise such termination right by serving a termination notice to the Company on or around the Closing Date if the Offer becomes unconditional in all respects and closes.



Given that the licences granted to the Company under the Licence Agreement including the licence (i) for certain brands such as *Tempo* and *Tena*, by Essity HH in relation to its tissue and personal care product business; and (ii) for certain patents and technology and related intellectual property relating to the manufacture of tissue and personal care products under the aforesaid certain brands for the Company to use in certain territories, which could enhance the Company's product portfolio, allowing it to consolidate its strong position within the consumable paper products market and leverage on the brand equity of these brands to further penetrate into the person care products market, Essity HH has issued the Option Letter containing the terms of the Option, where the offer and grant of the Option are conditional upon the prior issuance of the Termination Notice in accordance with the terms of the Licence Agreement and are subject to the terms of the Option Letter. The Option was granted unilaterally by Essity HH to the Company and neither the Company nor the Offeror were involved in the determination or negotiation of any of the terms set out in the Option Letter.

The Option is exercisable by the Company, at its sole discretion, from the date falling 12 months after the date of the Termination Notice until the earlier of: (i) the date falling 36 months after the date of the Termination Notice; and (ii) 31 December 2027 (both exclusive). The Company will consider all relevant factors at the time then existing to decide if it is in the interests of the Company to exercise the Option.

Should the Company wish to exercise the Option, it shall notify Essity HH during the exercise period. Within 30 days after the delivery of such notice by the Company, the Company shall execute and deliver the New Licence Agreement to Essity HH. Within 14 days after Essity HH's receipt of the New Licence Agreement duly executed by the Company, Essity HH shall execute and deliver the New Licence Agreement to the Company. The New Licence Agreement, if entered into, will be entered into in the ordinary course of business of each of Essity HH and the Company. The terms of the New Licence Agreement are an extension of the current licenses available to the Company substantially in line with the current arrangements under the Licence Agreement, while making certain necessary amendments to the Licence Agreement to reflect the new arm's length relationship between Essity Group and the Company upon the Company ceasing to be a member of the Essity Group.

The tissue and personal care segments have been key revenue contributors to the Group over the past years and brand such as *Tempo* has been widely recognised and has generated significant growth under the tissue segment in markets such as PRC and Hong Kong. Brands such as *Tena*, *Libresse* and *Libero* have been well recognised and have contributed sales to the Group under the personal care segment in markets such as Malaysia and Chinese Taiwan. Therefore, we consider it beneficial to the Company to have the option to continue such businesses by entering into the New Licence Agreement if it so wishes.

Please refer to the section headed "OPTION TO ENTER INTO NEW LICENCE AGREEMENT" in the letter from BNPP and CICC in the Composite Document.



Confirmation of financial resources

As disclosed in the letter from BNPP and CICC of the Composite Document, the Offeror intends to finance and satisfy the consideration (including the buyer's ad valorem stamp duty) payable under the Offer with its internal resources and the Loan Facilities provided to the Offeror. As security in favour of the financing parties of the Loan Facility, the Offeror has agreed, among other things, to create security over all Shares held by itself and its subsidiary after the first date on which settlement of the consideration (in respect of such number of Offer Shares which will result in the Offeror and its subsidiary holding more than 50% of the voting rights in the Company) is made. The Offeror has also agreed, conditional upon the Company having become a wholly-owned subsidiary of the Offeror and the withdrawal of listing of Shares from the Stock Exchange, to create security over shares in certain subsidiaries of the Company and procure the Company and certain subsidiaries of the Company to provide guarantee in connection with the Loan Facility. Save for the guarantee and the security package which would only be granted after privatisation of the Company, the Offeror does not intend that the payment of interest on or repayment of or guarantee or security for the Loan Facility will depend to any significant extent on the business of the Group.

Assuming full acceptance of the Offer, the maximum aggregate amount payable by the Offeror will be approximately HK\$26,128.7 million.

BNPP and CICC, being the financial advisers to the Offeror, are satisfied that sufficient financial resources are available to the Offeror to satisfy the consideration payable upon full acceptance of the Offer.

Conditions to the Offer

The Offer is conditional upon the satisfaction or, if capable of being waived, waiver of the following Conditions:

- (a) valid acceptances of the Offer having been received (and not, where permitted, withdrawn) by 4:00 p.m. on the Closing Date (or such later time or date as the Offeror may, subject to the rules of the Takeovers Code, decide) in respect of such number of Shares which will result in the Offeror and the Offeror Concert Parties holding more than 50% of the voting rights in the Company;
- (b) the Shares remaining listed and traded on the Stock Exchange up to the Closing Date (or, if earlier, the Unconditional Date) save for any temporary suspension(s) of trading of the Shares and no indication being received on or before the Closing Date (or, if earlier, the Unconditional Date) from the SFC and/or the Stock Exchange to the effect that the listing of the Shares on the Stock Exchange is or is likely to be withdrawn; and



- (c) up to and including the time when the Condition set out in (a) above is satisfied, (i) no Relevant Authorities in any jurisdiction having taken or instituted any action, proceeding, suit, investigation or enquiry, or enacted or made or publicly proposed, and (ii) there is no outstanding statute, regulation, demand or order, in each case which would make the Offer void, unenforceable or illegal or prohibit implementation of the Offer or which would impose any material conditions, limitations or obligations with respect to the Offer.

The Offeror reserves the right to waive, in whole or in part, the Conditions set out in (b) and (c) above. The Condition set out in (a) above cannot be waived.

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

Pursuant to Rule 15.3 of the Takeovers Code, the Offeror must publish an announcement when the Offer becomes unconditional as to acceptances and when the Offer becomes unconditional in all respects. The Offer must also remain open for acceptance for at least 14 days after the Offer becomes unconditional in all respects. Shareholders are reminded that the Offeror does not have any obligation to keep the Offer open for acceptance beyond this 14-day period.

Warning: Shareholders of, and/or potential investors in, the Company should note that, completion of the Offer is subject to the Conditions being satisfied or, if capable of being waived, waived and therefore the Offer may or may not become unconditional and may or may not be completed. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company. If Shareholders and potential investors are in any doubt about their position, they should consult their professional advisers



PRINCIPAL FACTORS AND REASONS CONSIDERED

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

1. Information on the Group

1.1 Background information of the Group

The Company is a company incorporated in the Cayman Islands with limited liability, and its Shares were listed on the Main Board of the Stock Exchange in 2007 with its substantial shareholders being Essity GH and Mr. Li as at the Latest Practicable Date. The principal activities of the Group are the manufacture and sale of household paper products and personal care products. The household care products segment mainly includes toilet paper, hanky, softpack, box tissues, paper napkins and wet wipes, whilst the personal care products segment mainly include baby care products, incontinence products and feminine care products. Brands, under which the products are sold, include *Vinda*, *Tempo*, *Tork*, *Libresse*, *Drypers*, *Dr. P* and *Tena*.

Based on the 2023 Annual Results, the annual designed capacity of the Group's papermaking facilities was 1,425,000 tons at the end of 2023.



1.2 Financial information of the Group

(i) Financial performance

Set out below is a summary of the Group's consolidated financial performance for the three years ended 31 December 2021 ("FY2021"), 2022 ("FY2022") and FY2023 respectively, as extracted from the 2022 Annual Report and the 2023 Annual Results:

	FY2023 HK\$ (Audited)	FY2022 HK\$ (Audited)	FY2021 HK\$ (Audited)
Revenue			
Household paper products	16,655,088,487	16,103,169,549	15,500,824,803
Personal care products	<u>3,344,011,832</u>	<u>3,314,390,014</u>	<u>3,174,914,655</u>
	19,999,100,319	19,417,559,563	18,675,739,458
Cost of sales	(14,747,699,693)	(13,934,355,595)	(12,079,392,782)
Gross profit	5,251,400,626	5,483,203,968	6,596,346,676
Selling and marketing costs	(3,890,392,804)	(3,837,322,482)	(3,672,134,223)
Administrative expenses	(1,038,431,803)	(911,661,474)	(957,701,901)
Net impairment losses on financial assets	(24,090,933)	(4,448,991)	(24,720,800)
Other income and losses – net	<u>125,526,364</u>	<u>76,745,523</u>	<u>101,696,044</u>
Operating profit	424,011,450	806,516,544	2,043,485,796
Finance income and costs – net	(136,399,340)	(59,600,287)	(93,686,208)
Share of post-tax loss of an associate	<u>(1,513)</u>	<u>(49,301)</u>	<u>(225,086)</u>
Profit before income tax	287,610,597	746,866,956	1,949,574,502
Income tax expense	<u>(34,459,077)</u>	<u>(40,827,454)</u>	<u>(331,209,930)</u>
Profit for the year attributable to equity holders of the Company	<u>253,151,520</u>	<u>706,039,502</u>	<u>1,638,364,572</u>

As shown above, total revenue of the Group has shown slow but stable growth during the three years ended 31 December 2023, and the household paper products segment has been the key revenue contributor representing consistently over 80% of the total revenue of the Group during the past three years. As disclosed in the Annual Reports, the Company reported increases in revenue by approximately 4.0% from approximately HK\$18,675.7 million in FY2021 to approximately HK\$19,417.6 million in FY2022, and further by approximately 3.0% to approximately HK\$19,999.1 million in FY2023. The increase in revenue was mainly due to increase in revenue from the Company's household paper products segment in each of FY2022 and FY2023.



Gross profit of the Group decreased by approximately 16.9% in FY2022 from approximately HK\$6,596.3 million in FY2021 to approximately HK\$5,483.2 million in FY2022, with a gross margin of around 28.2% in FY2022. As disclosed in the 2022 Annual Report, the Group was impacted by significantly higher material costs during FY2022. Gross profit of the Group was down by approximately 4.2% to approximately HK\$5,251.4 million in FY2023 with a gross margin of around 26.3%. This was mainly attributable to inventories of raw materials purchased at relatively higher costs despite the gradual reduction of the wood pulp prices since the end of 2022, and the intensive competition in the Group's various operating regions.

Profit for the year attributable to equity holders of the Company was approximately HK\$706.0 million in FY2022 as opposed to approximately HK\$1,638.4 million in FY2021, representing a substantial decrease of approximately 56.9%. Such decrease was mainly a result of (i) lower gross profit reported for FY2022; and (ii) increase in selling and marketing costs by approximately 4.5% to approximately HK\$3,837.3 million in FY2022.

Profit for the year attributable to equity holders of the Company for FY2023 was further reduced to approximately HK\$253.2 million, representing a decrease of approximately 64.1%. In addition to the decrease in gross profit and the increase in selling and marketing costs by approximately HK\$53.1 million and administrative expenses by approximately HK\$126.8 million reported for FY2023, the significant increase in finance costs from approximately HK\$59.6 million in FY2022 to HK\$136.4 million in FY2023 as a result of the high interest rate of bank borrowings during FY2023 has also led to the considerable decrease in net profit. Net profit margin of the Group eroded from around 8.8% for FY2021 to around 3.6% for FY2022, and further down to around 1.3% for FY2023.

The Company paid total dividends per Share of HK\$0.50 for FY2021 and HK\$0.40 for FY2022 respectively. The Company declared an interim dividend of HK\$0.10 per Share on 19 July 2023 for the six months ended 30 June 2023 and resolved not to declare a final dividend for FY2023.



(ii) *Financial position*

Set out below are the summarised consolidated balance sheets of the Group as at 31 December 2022 and 31 December 2023 as extracted from the 2023 Annual Results:

	As at 31 December 2023 HK\$ (Audited)	As at 31 December 2022 HK\$ (Audited)
ASSETS AND LIABILITIES		
Non-current assets		
Property, plant and equipment	10,045,005,752	10,353,535,314
Right-of-use assets	1,135,354,163	1,221,438,469
Intangible assets	2,341,634,862	2,456,705,131
Deferred income tax assets	751,728,527	629,751,445
Investment properties	1,910,231	40,173,068
Investment in an associate	<u>—</u>	<u>2,030,636</u>
	<u>14,275,633,535</u>	<u>14,703,634,063</u>
Current assets		
Inventories	3,662,494,791	6,014,823,036
Trade and notes receivables	1,983,893,729	2,339,665,339
Other receivables	633,764,209	483,237,455
Prepayments	188,482,232	100,093,982
Due from related parties	28,241,044	40,242,578
Cash and cash equivalents	<u>1,375,581,365</u>	<u>606,947,407</u>
	<u>7,872,457,370</u>	<u>9,585,009,797</u>
Total assets	<u>22,148,090,905</u>	<u>24,288,643,860</u>



	As at 31 December 2023 HK\$ (Audited)	As at 31 December 2022 HK\$ (Audited)
Current liabilities		
Trade payables, other payables and accrued expenses	5,542,141,898	7,548,972,120
Contract liabilities	94,228,502	118,382,755
Borrowings	331,660,083	299,246,812
Loans from a related party	85,051,091	700,000,000
Lease liabilities	49,286,439	55,585,120
Due to related parties	13,783,970	22,509,163
Current income tax liabilities	<u>77,720,858</u>	<u>81,864,329</u>
	<u>6,193,872,841</u>	<u>8,826,560,299</u>
Non-current liabilities		
Borrowings	3,839,479,423	2,800,715,036
Loans from a related party	–	88,282,378
Lease liabilities	83,616,575	99,385,024
Deferred government grants	258,616,552	247,961,760
Deferred income tax liabilities	209,338,951	215,293,079
Post-employment benefits	7,949,472	6,960,500
Other non-current liabilities	<u>24,171,116</u>	<u>3,200,341</u>
	<u>4,423,172,089</u>	<u>3,461,798,118</u>
Total liabilities	<u>10,617,044,930</u>	<u>12,288,258,417</u>
EQUITY		
Capital and reserves attributable to the Company's equity holders		
Share capital	120,328,537	120,327,537
Share premium	4,497,509,829	4,497,368,699
Other reserves	<u>6,913,207,609</u>	<u>7,382,589,207</u>
Total equity	<u>11,531,045,975</u>	<u>12,000,285,443</u>



Total non-current assets of the Group were mainly comprised of property, plant and equipment which represented around 70% of the total non-current assets as of both 31 December 2022 and 2023. Balance of total non-current assets of the Group remained largely similar as at 31 December 2023 compared with that of 31 December 2022.

Total current assets of the Group were mainly comprised of inventories, trade and notes receivables and cash and cash equivalents as of 31 December 2023. Total current assets of the Group as at 31 December 2023 decreased by approximately 17.9% as compared to 31 December 2022 mainly due to, among other things, the significant decline in inventories from approximately HK\$6,014.8 million as at 31 December 2022 to approximately HK\$3,662.5 million as at 31 December 2023 as a result of utilisation of raw materials acquired previously at a higher cost for production and sales.

Total current liabilities of the Group mainly comprised trade payables, other payables and accrued expenses which represented over 85% of the total current liabilities as at both 31 December 2022 and 2023. Total current liabilities of the Group as at 31 December 2023 decreased by approximately 29.8% as compared with that of 31 December 2022 mainly attributable to, among others, the decrease in loans from a related party from approximately HK\$700.0 million as at 31 December 2022 to approximately HK\$85.1 million as at 31 December 2023 due to repayments made during the year.

Total non-current liabilities of the Group mainly comprised long-term borrowings which represented over 80% of the total non-current liabilities as at both 31 December 2022 and 2023. Total non-current liabilities of the Group as at 31 December 2023 increased by approximately 27.8% as compared to 31 December 2022 mainly due to increases in bank borrowing by around 37.1% from approximately HK\$2,800.7 million as at 31 December 2022 to approximately HK\$3,839.5 million as at 31 December 2023.

Net gearing ratio (as represented by total debt less cash and cash equivalents and restricted bank deposits divided by total shareholders' equity) of the Group was approximately 26.1% as at 31 December 2023 and approximately 28.6% as at 31 December 2022, which demonstrated a relatively stable debt level of the Group during the two years.

Total equity attributable to the Company's equity holders as at 31 December 2022 and 31 December 2023 was approximately HK\$12,000.3 million and HK\$11,531.0 million respectively.

Based on 1,203,285,373 issued Shares as at the Latest Practicable Date, the net asset value per Share was approximately HK\$9.58 per Share as at 31 December 2023, being less than half of the Offer Price.



2. Information on the Offeror

As at the Latest Practicable Date, the Offeror and the Offeror Concert Parties were interested in a total of 92,538,100 Shares, representing approximately 7.69% of the issued share capital of the Company.

The Offeror is an exempted company incorporated in the Cayman Islands and is indirectly wholly-owned by APRIL. As disclosed in the letter from BNPP and CICC in the Composite Document, the Offeror is a special purpose vehicle for the purpose of acquiring Shares under the Offer and it, together with Beaumont (a wholly-owned subsidiary of the Offeror), does not hold any investment other than Shares and cash to fund the Offer.

As further disclosed in the Composite Document, the APRIL group is one of the largest, most technologically advanced and efficient makers of pulp and paper products in the world and it currently employs approximately 9,000 people directly. APRIL is wholly-owned by Fiduco Trust Management PTC, which is a trustee of a discretionary trust established by Mr. Tanoto as settlor and whose beneficiaries are his immediate family members.

3. Prospects of the Group

As discussed above under the section headed “1.1 Background information of the Group”, principal activities of the Group are the manufacture and sale of household paper products and personal care products, most of which are mainly considered daily essential products.

As discussed under the section headed “1.2 Financial information of the Group” above, though total revenue of the Group has shown some growth during the three years ended 31 December 2023, net profits of the Group has dropped from approximately HK\$1,638.4 million in FY2021 by around 56.9% to approximately HK\$706.0 million in FY2022, and further by around 64.1% to approximately HK\$253.2 million in FY2023, with net profit margin eroded from around 8.8% for FY2021 to 1.3% for FY2023. As discussed above, such downward pressure on net profits and net profit margin has been mainly attributable to higher material costs, increased selling and marketing costs and administrative expenses and increased interest expenses under the prevailing high interest rates environment. In addition to the Group’s aforesaid declining business performance over the past few years, the exits of the controlling shareholder Essity and the Group founder Mr. Li upon the completion of the Offer may also draw further uncertainty to the future business development of the Group. Whilst the Offeror is a wholly-owned subsidiary of the APRIL group which is, as disclosed in the Composite Document, one of the largest, most technologically advanced and efficient makers of pulp and paper products in the world with the new Directors nominated having relevant experiences in management of resource-based manufacturing companies, it is reasonable to expect that there may be synergies to the Group following the Offeror becoming the controlling Shareholder pursuant to the Offer. However, Independent Shareholders should note that, save for the Offeror indicating its intention to privatise the Company by exercising its right under section 88 of the Companies Act to compulsorily acquire Offer Shares not acquired by the Offeror under the Offer if, within four



months after the date of the Composite Document, it has acquired not less than 90% of the Offer Shares, no concrete and detailed business plan has been provided by the Offeror on the future business development of the Group in the Composite Document.

Despite the gradual reduction of the pulp prices since the end of 2022, based on the latest projection of the Federal Open Market Committee of the Federal Reserve, the US interest rates are unlikely to be lowered in the first quarter of 2024 and therefore, are expected to remain relatively high in 2024, which, coupled with geopolitical tensions, would cast further uncertainties on the regional as well as global economy. As such, the outlook for the Group would still be challenging and be highly dependent on its ability in, amongst others, costs management and responding to the uncertain regional and global economic conditions.

4. Intentions of the Offeror

As stated in the letter from BNPP and CICC of the Composite Document, save as disclosed including but not limited to, the proposed changes to the composition of the Board, in the letter from BNPP and CICC, the Offeror has no plans to make any major changes to the current business operations of the Group, including any redeployment of the fixed assets of the Company, or to introduce any major changes in the continued employment of the employees of the Group as a result of the Offer.

The Offeror intends to privatise the Company by exercising its right under section 88 of the Companies Act to compulsorily acquire Offer Shares not acquired by the Offeror under the Offer if, within four months after the date of this Composite Document, it has acquired not less than 90% of the Offer Shares. On completion of the compulsory acquisition (if applicable), the Company will become a wholly-owned subsidiary of the Offeror and an application will be made for the withdrawal of the listing of the Shares from the Stock Exchange pursuant to Rule 6.15 of the Listing Rules.

If the level of acceptances of the Offer reaches the prescribed level under the Companies Act required for compulsory acquisition and the requirements of Rule 2.11 of the Takeovers Code are satisfied, dealings in the Shares will be suspended from the Closing Date up to the withdrawal of listing of the Shares from the Stock Exchange pursuant to Rule 6.15 of the Listing Rules.

In the event the Offeror does not effect the compulsory acquisition of the remaining Offer Shares not acquired by the Offeror under the Offer by reason of the level of acceptances of the Offer not reaching the prescribed threshold under the Companies Act or the Takeovers Code, the directors of the Offeror and the new directors to be appointed to the Board have jointly and severally undertaken to the Stock Exchange to take appropriate steps to ensure that sufficient public float exists in the Shares.

If the Offeror does not effect compulsory acquisition and, as at the close of the Offer, less than 25% of the Shares are held by the public or if the Stock Exchange believes that:

- (a) a false market exists or may exist in the trading of the Shares; or



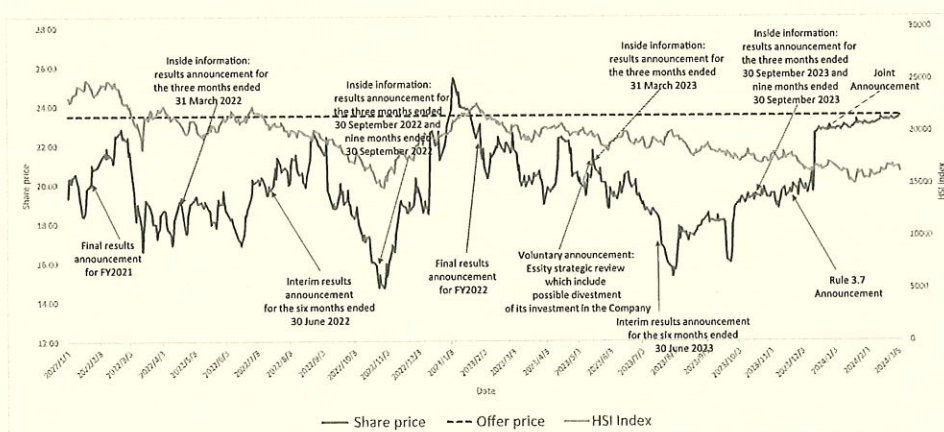
(b) there are insufficient Shares in public hands to maintain an orderly market,

then the Stock Exchange may exercise its discretion to suspend dealings in the Shares. It should be noted that, upon completion of the Offer, there may be insufficient public float and therefore trading in the Shares may be suspended until a prescribed level of public float is attained.

5. Analysis of price performance and trading liquidity

5.1 Price performance of the Shares

Set out below is the movement of the closing prices of the Shares during the period from 3 January 2022 to the Latest Practicable Date (the “**Review Period**”), and the announcements of the Company relating to certain corporate events that took place during the Review Period. We consider the Review Period, which covers a period of more than 24 months, represents a sufficient period of time to provide a general overview on the recent market performance of the Shares for the purpose of this analysis.



Source: Bloomberg and HKEx News website

The closing prices of the Shares ranged from HK\$14.72 to HK\$25.40 during the period between 3 January 2022 and the Last Trading Day (both dates inclusive, the “**Pre-announcement Period**”), with an average closing price of around HK\$19.61. For the period between 3 January 2022 and 20 November 2023, being the date of the Rule 3.7 Announcement (both dates inclusive, the “**Pre-3.7 Announcement Period**”), the closing price per Share ranged from HK\$14.72 to HK\$25.40 with an average of around HK\$19.60 per Share. The closing prices have only exceeded the Offer Price for a brief period in early 2023.

As shown in the chart above, Share closing price increased in January 2022 from HK\$18.40 per Share on 17 and 18 January 2022 to HK\$21.00 on 26 January 2022 following the publication of the Company’s FY2021 results announcement prior to trading on the same



day. Share closing prices then gradually increased to HK\$22.85 per Share on 23 February 2022 before falling back to HK\$16.62 per Share on 15 March 2022 which was generally in line with the movements in Hang Seng Index (“HSI”).

Shares closing price then demonstrated a gradual upward trend with fluctuations since mid-March 2022 from HK\$16.62 on 15 March 2022 to reach HK\$22.60 on 26 August 2022. During such period, we note that the Company published (i) its quarterly results announcement for the three months ended 31 March 2022 on 22 April 2022 before trading hours and its Share closing prices fell slightly by approximately 1.7% to HK\$18.66 per Share on 22 April 2022 following the announcement; and (ii) its interim results announcement of the Company on 21 July 2022 before trading hours and its Share closing prices fell slightly by approximately 2.6% to HK\$20.30 per Share on 21 July 2022 following such announcement.

We note that Share closing prices commenced a sharp downward trend after 26 August 2022 and hit a trough of HK\$14.72 per Share on 31 October 2022. During this period, the Company published its quarterly results announcement for the three months ended 30 September 2022 and nine months ended 30 September 2022 before trading hours on 18 October 2022, after which its closing price per Share decreased by approximately 3.6% to approximately HK\$16.70 on the same day from HK\$17.32 on 17 October 2022. Share closing prices then went further down to reach a low of HK\$14.72 by end of October 2022.

Share closing prices then recovered from the low, in line with the HSI movement, and commenced a sharp upward trend before reaching its Review Period high of approximately HK\$25.40 per Share on 5 January 2023. We are advised by the Company that the Company is not aware of any reasons for the increase in Share closing prices during such period.

Since then, however, Share closing prices again resumed a significant downward movement until early August 2023. During such period, on 26 January 2023 (before trading hours), the Company published its FY2022 annual results announcement. Share closing prices fell by approximately 5.9% from the prior day closing price to HK\$22.35 per Share on the same day. We also note that Share closing price fell by (i) around 6.4% from the prior day closing price to HK\$20.40 per Share on 27 April 2023 following the publication of its quarterly results announcement for the three months ended 31 March 2023 and the voluntary announcement relating to Essity’s strategic review including a possible divestment of its investment in the Company before trading hours; and (ii) approximately 1.3% from the prior day closing price to HK\$18.00 per Share on 20 July 2023 following the publication of its interim results announcement for the six months ended 30 June 2023 before trading hours. Closing price per Share then went further down to reach HK\$15.30 on 1 August 2023.



Since August 2023 up to 20 November 2023, being the trading day immediately prior to and the date of the publication of the Rule 3.7 Announcement (after trading hours) and save for the sudden and temporary drop on around 21 to 25 September 2023, a general and gradual increase in Share closing prices from HK\$15.30 per Share on 1 August 2023 to HK\$19.56 per Share on 20 November 2023 was observed. However, save for the publication of its quarterly announcement for the three months ended 30 September 2023 and nine months ended 30 September 2023 on 26 October 2023 following which the Share closing prices declined by approximately 1.3%, the Company is not aware of any reasons for the increase in Share closing prices between August and November 2023 and the sudden drop in Share closing prices in around end of September 2023.

The Rule 3.7 Announcement was published after trading hours on 20 November 2023. The Shares closed at HK\$19.72 per Share on 21 November 2023, marginally up by approximately 0.8%. Since then, Share closing prices gradually increased to reach HK\$20.70 per Share on 14 December 2023, being the Last Trading Day. The Joint Announcement was published before trading hours on 15 December 2023. The Share closing prices increased to approximately HK\$22.60 on 15 December 2023, up by around 9.2% from the closing price of the previous day. Share closing price then fluctuated in a range between HK\$22.70 and HK\$23.45 each, and the Share closing price as at Latest Practicable Date was HK\$23.45. We consider recent Share prices were principally determined by the Offer price of \$23.50 per Offer Share.

The Offer Price of HK\$23.50 per Offer Share represents:

- (a) a premium of approximately 19.90% over the average closing price for the Pre-3.7 Announcement Period of HK\$19.60 per Share;
- (b) a premium of approximately 20.14% over the closing price as quoted on the Stock Exchange on 20 November 2023, being the date of the Rule 3.7 Announcement, of HK\$19.56 per Share;
- (c) a premium of approximately 19.65% over the average of the closing prices of the Shares as quoted on the Stock Exchange for the five (5) trading days up to and including 20 November 2023, being the last trading day prior to the publication of the Rule 3.7 Announcement, of HK\$19.64 per Share;
- (d) a premium of approximately 21.26% over the average of the closing prices of the Shares as quoted on the Stock Exchange for the thirty (30) trading days up to and including 20 November 2023, being the last trading day prior to the publication of the Rule 3.7 Announcement, of HK\$19.38 per Share;



- (e) a premium of approximately 25.67% over the average of the closing prices of the Shares as quoted on the Stock Exchange for the sixty (60) trading days up to and including 20 November 2023, being the last trading day prior to the publication of the Rule 3.7 Announcement, of HK\$18.70 per Share;
- (f) a premium of approximately 26.89% over the average of the closing prices of the Shares as quoted on the Stock Exchange for the one hundred twenty (120) trading days up to and including 20 November 2023, being the last trading day prior to the publication of the Rule 3.7 Announcement, of HK\$18.52 per Share;
- (g) a premium of approximately 13.53% over the closing price as quoted on the Stock Exchange on the Last Trading Day of HK\$20.70 per Share;
- (h) a premium of approximately 0.21% over the closing price as quoted on the Stock Exchange on the Latest Practicable Date of HK\$23.45 per Share; and
- (i) a premium of approximately 145.23% over the audited consolidated net asset value of approximately HK\$9.58 per Share, based on the audited consolidated net assets of the Company as at 31 December 2023 and the number of Shares in issue as at the Latest Practicable Date.

Shareholders should note that the Share price movement following the publication of the Rule 3.7 Announcement and the Joint Announcement are likely to be driven by the Offer and as such, the sustainability of the current Share price level could be uncertain if the Offer fails to become unconditional.



5.2 Trading Liquidity

Set out below in the table are the average daily trading volume of the Shares and the percentages of the average daily trading volume to the number of total issued Shares and public float of the Company respectively during the Review Period and the Pre-3.7 Announcement Period:

	Average daily trading volume of the Shares	Approximate % of average daily trading volume to the number of total issued Shares (Note 1)	Approximate % of average daily trading volume to the public float of the Company (Note 2)
2022			
January	2,316,230	0.19%	0.73%
February	1,123,796	0.09%	0.35%
March	1,631,060	0.14%	0.51%
April	1,577,834	0.13%	0.50%
May	1,163,934	0.10%	0.37%
June	1,188,140	0.10%	0.37%
July	715,891	0.06%	0.22%
August	645,024	0.05%	0.20%
September	2,181,595	0.18%	0.66%
October	1,185,864	0.10%	0.36%
November	1,244,175	0.10%	0.38%
December	1,655,578	0.14%	0.50%
2023			
January	1,660,492	0.14%	0.51%
February	1,559,194	0.13%	0.47%
March	791,835	0.07%	0.24%
April	1,352,088	0.11%	0.41%
May	1,562,800	0.13%	0.48%
June	671,925	0.06%	0.20%
July	1,245,375	0.10%	0.38%
August	2,963,002	0.25%	0.90%
September	4,184,278	0.35%	1.27%
October	2,112,656	0.18%	0.64%
1 November – 20 November	1,087,264	0.09%	0.33%
Pre-3.7 Announcement Period	1,559,070	0.13%	0.48%
21 November – 30 November	1,925,915	0.16%	0.59%
1 December – 14 December (Last Trading Day)	2,246,041	0.19%	0.68%
Pre-announcement Period	1,579,496	0.13% (Note 3)	0.49% (Note 3)



	Average daily trading volume of the Shares	Approximate % of average daily trading volume to the number of total issued Shares (Note 1)	Approximate % of average daily trading volume to the public float of the Company (Note 2)
From 15 December 2023 – the Latest Practicable Date	2,646,637	0.22% (Note 4)	0.81% (Note 4)

Source: Bloomberg and the Stock Exchange

Notes:

1. The calculation is based on the Average daily trading volume of the Shares for the respective month over the number of total issued Shares for the same month.
2. The total number of Shares held by the public for the respective month is calculated based on the total number of issued Shares excluding those held by Essity GH and the Directors (including Mr. Li) of the same month.
3. Approximate % of average daily trading volume to the number of total issued Shares for the Pre-announcement Period is based on the average daily trading volume over the Pre-announcement Period and the average of month end total issued Shares for the relevant months. Approximate % of average daily trading volume to the public float of the Company for the Pre-announcement Period is based on the average daily trading volume over the Pre-announcement Period and the average of month end total number of Shares held by the public (calculation is set out under note 2 above) for the relevant months.
4. Approximate % of average daily trading volume to the number of total issued Shares for the period from 15 December 2023 – Latest Practicable Date is based on the average daily trading volume over the period from 15 December 2023 – Latest Practicable Date and the average of month end total issued Shares for the relevant months. Approximate % of average daily trading volume to the public float of the Company for the period from 15 December 2023 – Latest Practicable Date is based on the average daily trading volume over the period from 15 December 2023 – Latest Practicable Date and the average of month end total number of Shares held by the public (calculation is set out under note 2 above) for the relevant months.



From the table above, which sets out the average daily trading volume as a percentage of the number of total issued Shares and as a percentage of the public float respectively, we note that the average daily trading volume of the Shares has been relatively thin. The average daily trading volume of the Shares during the Pre-3.7 Announcement Period was 1,559,070 Shares, representing only around 0.13% of the total issued share capital of the Company and around 0.48% of the public float. The publication of the Rule 3.7 Announcement in November 2023 heightened the trading volume and to an average of approximately 1,925,915 Shares for the remaining trading days in November, representing 0.16% of total issued share capital of the Company and around 0.59% of total public float, and further to an average of approximately 2,246,041 Shares in December 2023 prior to the publication of the Joint Announcement, which represented approximately 0.19% of total issued share capital of the Company and approximately 0.68% of the public float. On an overall basis, the average trading volume was still thin between 15 December 2023 (being the first trading day immediately after the Joint Announcement) and the Latest Practicable Date, being approximately 0.22% and 0.81% of the number of total issued Shares and public float respectively.

Given the historically thin trading volume of the Shares, it is uncertain whether there would be sufficient liquidity in the Shares for the Independent Shareholders to dispose of a significant number of Shares in the open market without causing an adverse impact on the market price of the Shares. The Offer therefore represents an opportunity for the Independent Shareholders, particularly for those who hold a large volume of Shares, to dispose of their holdings at the Offer Price if they so wish, provided the Offer becomes unconditional.

6. Comparable analysis

As discussed in the section headed “1.2 Financial information of the Group” above, the Group is principally engaged in the manufacture and sale of household paper products and personal care products, and over 80% of the Group’s total revenue has been contributed by the household paper products segment which involves mainly tissue paper production and sales business. In this respect, in order to evaluate the fairness and reasonableness of the Offer Price, we have conducted a comparable company analysis based on the following criteria to include companies that (i) are listed on the Stock Exchange; and (ii) are principally engaged in production and/or sales of household paper products and/or personal care products with at least 50% of their respective total revenue contributed from tissue paper production and sales segment in their latest financial year.

Based on the aforementioned criteria, we noted 2 listed companies on the Stock Exchange which are engaged in the tissue paper production and sales business (the “**Comparable Company(ies)**”). This is an exhaustive list based on the criteria set out as per above.



We have selected the use of price-to-earnings ratio (the “**P/E Ratio**”), price-to-book ratio (the “**P/B Ratio**”), price-to-sales ratio (the “**P/S Ratio**”) and enterprise value-to-earnings before interest, tax, depreciation and amortisation ratio (the “**EV/EBITDA Ratio**”) for the purpose of the comparable company analysis because we consider such ratios to be suitable valuation methodologies as they are common financial analysis tools used to evaluate companies with a proven track record. In particular, the use of EV/EBITDA Ratio could compare the value of companies unaffected by their respective capital structures.

Set out in the table below are the details of the Comparable Companies and their P/E Ratios, P/B Ratios, P/S Ratios and EV/EBITDA Ratios:

Company name	Stock code	P/E Ratio times (Note 2)	P/B Ratio times (Note 3)	P/S Ratio times (Note 2)	EV/EBITDA Ratio times (Note 4)	Dividend Yield (Note 5)
Hengan International Group Company Limited ("Hengan")	1044.HK	12.78	1.20	1.01	5.33	6.79%
Sunlight (1977) Holdings Limited	8451.HK	16.11	0.62	0.72	5.98	N/A
The Company (based on the Offer Price)		111.70 (Note 6)	2.45	1.41	17.70	1.70%

Source: the Stock Exchange

Notes:

1. The market capitalisation of the Comparable Companies are based on their closing price per share and total issued shares as at the Latest Practicable Date.
2. P/E Ratio and P/S Ratio of the Comparable Companies are calculated based on the respective trailing 12 months disclosed profit attributable to owners of the company and revenue of the respective Comparable Company and the respective Comparable Company's market capitalisation as at the Latest Practicable Date.
3. P/B Ratios of the Comparable Companies are calculated based on the respective net asset value attributable to owners of the company as published in their respective latest financial report and the market capitalisation as at the Latest Practicable Date.
4. Enterprise value of the Comparable Companies are calculated based on the market capitalisation as at the Latest Practicable Date, adjusted by debts, cash and non-controlling interests as published in their respective latest financial report. Earnings before interest, tax, depreciation and amortisation are calculated based on the respective trailing 12 months disclosed figures as at the Latest Practicable Date.
5. Dividend yield of the Comparable Companies are calculated based on the latest interim and final dividends as published in their respective announcements and/or financial reports. Dividend yield of the Company is based on the latest interim dividend for the interim period of 2023 and final dividend for FY2022.
6. As discussed above, the high implied P/E Ratio of the Company as represented by the Offer Price was primarily driven by the significant drop in profit attributable to owners of the Company per Share during FY2023. In this regard and for reference purpose, consistent comparatively high P/E ratios of the Group are



also observed if the P/E ratios are calculated based on profits attributable to owners of the Company per Share for FY2022 and (i) the Offer Price, which would be approximately 40.05 times; and (ii) the Share price on the Last Trading Day of HK\$20.70 per Share, which would be approximately 35.28 times.

As shown in the table above, all of the P/E Ratio, P/B Ratio, P/S Ratio and EV/EBITDA Ratio represented by the Offer Price are higher than and compare favourably to the P/E Ratio, P/B Ratio, P/S Ratio and EV/EBITDA Ratio of the Comparable Companies. It is also noted that the implied dividend yield of the Company based on the Offer Price is lower than that of Hengan, which indicates a lower investment return based on the dividend yield relative to the Offer Price, while at the same time, it also reflects the fact that the Offer Price relative to dividend is favourable in this respect.

Based on the above analysis, we consider that the Offer Price is attractive compared to the Comparable Companies.

DISCUSSION

We consider that the terms of the Offer, including the Offer Price, to be fair and reasonable so far as the Independent Shareholders are concerned after taking into account all of the above principal factors and reasons, in particular:

1. as discussed in the section headed “3. Prospects of the Group”, given the recent downward pressure on the Group’s net profits and net profit margin and the high interest rates environment, it is expected that the outlook of the Group would still be challenging and be highly dependent on its ability in, amongst others, costs management and responding to the uncertain regional and global economic conditions;
2. the exits of the controlling shareholder Essity and the Group founder Mr. Li upon the completion of the Offer may draw further uncertainty to the future business development of the Group in addition to its declining business performance over the past few years as discussed in the section headed “1.2. Financial information of the Group”;
3. the P/E Ratio, P/B Ratio, P/S Ratio and EV/EBITDA Ratio represented by the Offer Price are all higher than those of the Comparable Companies, which is considered favourable;
4. the Offer Price represents a premium(s) of
 - (i) approximately 19.90% over the average closing price for the Pre-3.7 Announcement Period of HK\$19.60 per Share;



- (ii) over 20% over the average closing prices of the Shares as quoted on the Stock Exchange for the thirty (30), sixty (60) and one hundred twenty (120) trading days up to and including 20 November 2023, being the last trading day prior to the publication of the Rule 3.7 Announcement;
- 5. the Offer Price represents a premium(s) of approximately 145.23% over the audited consolidated net asset value of approximately HK\$9.58 per Share as at 31 December 2023 based on the number of Shares in issue as at the Latest Practicable Date; and
- 6. the historical trading volume of the Shares has been thin during the Review Period and the Independent Shareholders may find it difficult to dispose of a significant number of Shares in the open market without causing an adverse impact on the market price of the Shares. The Offer therefore represents an opportunity for the Independent Shareholders, particularly for those who hold a large volume of Shares, to dispose of their holdings at the Offer Price if they so wish, assuming the Offer becomes unconditional. Based on the Irrevocable Undertakings provided to the offeror, this seems highly likely.

OPINION AND RECOMMENDATIONS

Having taken into account the above principal factors set out in this letter and summarised in the section headed “Discussion” above, we consider that the terms of the Offer are fair and reasonable so far as the Independent Shareholders are concerned and accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to accept the Offer.

Independent Shareholders who wish to realise all or part of their investment in the Shares should monitor the Share price performance during the Offer period. Recent Share prices, in our opinion, have been set by reference to the Offer Price, so market prices above HK\$23.50 seem unlikely. However, in the event that the market price of the Shares exceeds the Offer Price and the net sale proceeds, net of all transaction costs, exceed the amount receivable under the Offer, Independent Shareholders should consider selling the Shares on the market instead of accepting the Offer. Independent Shareholders should also note that Irrevocable Undertakings cover approximately 72.62% of the issued Shares, so that upon the close of Offer, the Offeror and the Offeror Concert Parties will hold in aggregate of at least 80.31% Shares which, in the case where compulsory acquisition is not exercised by the Offeror due to the level of acceptances not having met the prescribed level under the Companies Act or the requirements of Rule 2.11 of Takeovers Code not being satisfied, will cause the public float to fall below the required level of 25%. Therefore, unless waiver is obtained from the Stock Exchange, there may be a corresponding temporary suspension of trading in Shares and the Independent Shareholders would not be able to deal in their Shares on the Stock Exchange during such period, until a prescribed level of public float is attained. If the level of acceptances of the Offer reaches the prescribed level under the Companies Act required for compulsory acquisition and the requirements of Rule 2.11 of the



Takeovers Code are satisfied, dealings in the Shares will be suspended from the Closing Date up to the withdrawal of listing of the Shares from the Stock Exchange pursuant to Rule 6.15 of the Listing Rules.

The procedures for acceptance of the Offer are set out in Appendix I to the Composite Document and the accompanying Form of Acceptance. Independent Shareholders are urged to read the timetable set out in the Composite Document and any revised timetable (if any) to be announced by the Offeror and the Company carefully and act accordingly if they wish to accept the Offer.

Yours faithfully,
for and on behalf of
SOMERLEY CAPITAL LIMITED

Lyan Tam
Director

Ms. Lyan Tam is a licensed person registered with the Securities and Futures Commission and as a responsible officer of Somerley to carry out Type 6 (advising on corporate finance) regulated activities under the SFO and has over 20 years of experience in corporate finance industry.