創陞融資
Innovax Capital

創陞融資有限公司
Innovax Capital Limited
Unit B / 13/F / Neich Tower
128 Gloucester Road / Wanchai / Hong Kong

7 March 2023

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

**DISCLOSEABLE TRANSACTION AND CONNECTED TRANSACTION
DISPOSAL OF EQUITY INTEREST OF THE TARGET COMPANY**

INTRODUCTION

We refer to our engagement as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Equity Transfer Agreement approved by the Board on 6 February 2023 and entered into by the Company on 17 February 2023, details of which are set out in the letter from the Board (the "**Letter from the Board**") contained in the circular (the "**Circular**") dated 7 March 2023 issued by the Company, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

References are made to the announcements of the Company dated 6 February 2023 and 17 February 2023 in relation to the Equity Transfer Agreement entered into among (i) the Company, (ii) CIMC Vehicle and (iii) CIMC. According to the Equity Transfer Agreement, the Company and CIMC Vehicle will sell their 75% and 25% equity interests in the Target Company, respectively and CIMC will acquire 100% equity interests in the Target Company (inclusive of all interests, benefits attached and all rights legally entitled, and all obligations assumed in accordance with laws) at total consideration (the "**Consideration**") of RMB1,355,618,000, payable by cash.

As stated in the Letter from the Board, the Board would like to seek the Independent Shareholders' approval at the EGM to consider and approve the resolution regarding the Equity Transfer Agreement and the transactions contemplated thereunder.

As stated in the Letter from the Board, CIMC and its associates directly and indirectly held 56.78% of the shares of the Company as at the Latest Practicable Date and are the Controlling Shareholders. Therefore, CIMC is a connected person of the Company. Pursuant to Chapter 14A of the Hong Kong Listing Rules, the Equity Transfer Agreement and the transactions contemplated thereunder constitute connected transaction of the Company. Since the highest applicable percentage ratios (as defined in the Hong Kong Listing Rules) of the Equity Transfer Agreement and the transaction contemplated thereunder exceeds 5%, the

Equity Transfer Agreement and the transactions contemplated thereunder must comply with reporting, announcement, circular and Independent Shareholders' approval requirements under 14A of the Hong Kong Listing Rules.

In addition, since the highest applicable percentage ratio (as defined in the Hong Kong Listing Rules) of the Equity Transfer Agreement and the transactions contemplated thereunder exceeds 5% but less than 25%, the Equity Transfer Agreement and the transactions contemplated thereunder also constitute discloseable transaction of the Company and are subject to the reporting and announcement requirements of Chapter 14 of the Hong Kong Listing Rules.

As Mr. Mai Boliang, Mr. Wang Yu, Mr. Zeng Han and Mr. He Jin, being the Directors and Ms. Wang Jinghua, being a supervisor of the Company, each hold different positions in CIMC and/or certain of its subsidiaries, they are deemed to have a material interest in the Equity Transfer Agreement and the transactions contemplated thereunder and therefore abstained from voting on the resolutions relating to the Equity Transfer Agreement and the transactions contemplated thereunder. Save as disclosed above, no other Directors and supervisors of the Company have an interest in the transactions contemplated under the Equity Transfer Agreement.

The Independent Board Committee, comprising all of the three independent non-executive Directors, namely Mr. Feng Jinhua, Mr. Fan Zhaoping and Mr. Cheng Hok Kai Frederick, has been established in accordance with Chapter 14A of the Hong Kong Listing Rules to consider the terms of the Equity Transfer Agreement and the transactions contemplated thereunder, and to provide opinions to the Independent Shareholders on whether the terms of the Equity Transfer Agreement and the transactions contemplated thereunder are on normal commercial terms or better, which are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The EGM will be convened on Thursday, 23 March 2023.

We, Innovax Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the Equity Transfer Agreement and the transactions contemplated thereunder. As at the Latest Practicable Date, we are not connected with the Directors, chief executive and substantial Shareholders of the Company and CIMC or any of their respective subsidiaries or associates and are therefore considered suitable to give independent advice to the Independent Board Committee and the Independent Shareholders. During the last two years, we were engaged as an independent financial adviser to the Company, in respect of (1) the revision of annual caps for continuing connected transaction (details can be referred to in the announcement of the Company dated 1 June 2022 and circular of the Company dated 24 June 2022), under which we were required to express our opinion on and to give recommendations to the independent board committee and independent shareholders of the Company in respect of the relevant transactions; and (2) the deposit service framework agreement, the procurement framework agreements, the provision of products and services framework agreement, the financial guarantee framework agreement and the Jiansu Wanjing Procurement Framework Agreement and the transactions contemplated thereunder and the proposed annual caps (details can be referred to in the announcement of the Company dated 25 August 2021), under which we were required to express our opinion on and to give recommendations to the independent non-executive directors of the Company in respect of the relevant transactions.

During the last two years, we were engaged as an independent financial adviser to CIMC in respect of (1) the continuing connected transactions (details can be referred to the announcements of the CIMC Group dated 9 December 2021 and 17 June 2022 and the circular of CIMC dated 15 July 2022; and (2) the discloseable and connected transaction in relation to the disposal of equity interests in target company and capital increase and deemed disposal of target company (details can be referred to in the announcement of CIMC dated 23 November 2021 and the circular of CIMC dated 7 December 2021). Under these engagements, we were required to express our opinion on and to give recommendations to the independent board committee and the independent shareholders of CIMC in respect of the relevant transactions.

During the last two years, we were also engaged as an independent financial adviser to CIMC Enric Holdings Limited (stock code: 3899.HK) ("**CIMC Enric**"), a subsidiary of CIMC, in respect of (1) the continuing connected transactions contemplated under (i) the financial services framework agreement (2022), (ii) the master sales agreement (2022); (iii) the master processing services agreement (2022); and (iv) the master procurement agreement (2022) (details can be referred to in the announcement of CIMC Enric dated 28 November 2022); and (2) the revision of annual caps for existing continuing connected transactions under the master sales agreement and the master procurement agreement (details can be referred to in the announcement of CIMC Enric dated 4 November 2021). Under these engagements, we were required to express our opinion on and to give recommendations to the independent non-executive directors of CIMC Enric in respect of relevant transactions.

On the bases that (1) apart from the normal professional fees payable to us by the Company, CIMC and CIMC Enric in connection with these appointments, no arrangement exists whereby we have received or will receive any fees or benefits from the Company or the Directors, chief executive and substantial Shareholders of the Company, CIMC, CIMC Enric or any of their respective subsidiaries or associates or any other parties that could reasonably be regarded as relevant to our independence; (2) all of the abovementioned previous engagements with the Company, CIMC and CIMC Enric were limited to providing independent financial advisory services to respective independent non-executive director, the independent board committee and/or the independent shareholders pursuant to the Hong Kong Listing Rules which had not impaired our independence; and (3) our appointments under all of the abovementioned previous engagements were independent and separate to each other, including our current appointment in relation to the Equity Transfer Agreement, we consider that we are independent pursuant to Rule 13.84 of Listing Rules of the Hong Kong Stock Exchange.

BASIS OF OUR OPINION

In formulating our opinion, we have relied on the accuracy of the information and representations contained in the Circular and have assumed that all information and representations made or referred to in the Circular were true, accurate and complete in all material respects at the time they were made and continue to be true, accurate and complete in all material respects at the date of the Circular. We have also relied on our discussion with the management of the Company (the "**Management**") and its representatives regarding the Group, the annual reports of the Company for the years ended 31 December 2020 and 2021, respectively (the "**FY2020 Annual Report**" and the "**FY2021 Annual Report**", respectively) and the transaction, including the information and representations contained in the Circular. We have also assumed that all statements of belief, opinion and intention made by the Management and its representatives respectively in the Circular were reasonably made after due enquiry.

We consider that we have reviewed sufficient information to reach an informed view, to justify our reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our advice. We have no reason to suspect that any material facts have been omitted or withheld from the information contained or opinions expressed in the Circular nor to doubt the truth, accuracy and completeness of the information and representations provided to us by the Management and its representatives. We have not, however, conducted an independent in-depth investigation into the business and affairs of the Group, the Target Company and CIMC or their respective associates, nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendations in respect of the Equity Transfer Agreement and the transactions contemplated thereunder, we have taken the following principal factors and reasons into consideration:

A. Background information of the Group, the Target Company and CIMC

1. Background information of the Group

With reference to the Board Letter, the Group is a world-leading sophisticated manufacturer of semi-trailers and specialty vehicles, and is engaged in the manufacture, sale and after-sales services of seven major categories of semi-trailers in global major markets. In the China market, the Group is a competitive and innovative manufacturer of truck bodies for specialty vehicles as well as a manufacturer of lightweight van truck bodies.

The following table summarises the financial information of the Group for the years ended 31 December 2019, 2020 and 2021, as extracted from the FY2020 Annual Report and FY2021 Annual Report.

	For the year ended/As at 31 December		
	2019	**2020**	**2021**
	RMB million	*RMB million*	*RMB million*
	(audited)	*(audited)*	*(audited)*
Revenue	23,220.2	26,247.2	27,647.8
– sales of vehicles	21,399.3	24,218.1	24,825.3
– sales of parts and components	1,501.2	1,654.5	2,000.0
– Others	319.7	374.6	822.5
Profit for the year	1,326.5	1,269.3	987.7
Net assets	10,220.7	10,448.7	12,386.6

As extracted from FY2020 Annual Report, the Group's revenue increased from approximately RMB23,220.2 million for the year ended 31 December 2019 to approximately RMB26,247.2 million for the year ended 31 December 2020, representing an increase of approximately RMB3,027.0 million or 13.0%. Such increase was mainly attributable to the increase in sales of semi-trailer trucks in China, driven by the new development pattern of "the domestic circulation as the mainstay and the domestic and international dual circulation promoting each other" as proposed by the PRC government, which has provided broad development room for the logistics and transportation market and the sophisticated manufacturing industry in China.

The Group's profit for the year decreased from approximately RMB1,326.5 million for the year ended 31 December 2019 to approximately RMB1,269.3 million for the year ended 31 December 2020, representing a decrease of approximately RMB57.1 million or 4.3%. Such decrease was mainly due to (i) the net impairment losses on financial assets and financial guarantee contracts; (ii) the foreign exchange losses; and partially offset by (iii) the increase in revenue as discussed above.

As extracted from FY2021 Annual Report, the Group's revenue increased from approximately RMB26,247.2 million for the year ended 31 December 2020 to approximately RMB27,647.8 million for the year ended 31 December 2021, representing an increase of approximately RMB1,400.6 million or 5.3%. Such increase was mainly due to the increase in sales of global semi-trailer and parts and components of semitrailers and specialty vehicles, mainly from the North American market and European market.

The Group's profit of the year, however, decreased from approximately RMB1,269.3 million for the year ended 31 December 2020 to approximately RMB987.7 million for the year ended 31 December 2021, representing a decrease of approximately RMB281.7 million or 22.2%. Such decrease was mainly due to (i) the decrease in gross profit margin primary attributable to the increase in raw material prices, overbuying resulting from the transition of emission standards and the increase in ocean freight charge; and (ii) the decrease in other income and investment income.

2. Background information of the Target Company

The Target Company is a limited company established in the PRC in 2004. As at the Latest Practicable Date, the Target Company was held by the Company and CIMC Vehicle. The Target Company is mainly engaged in the development, production and sales of various high-tech and high-performance special purpose vehicles, modified vehicles, special vehicles and semi-trailers in China.

The table below sets out the audited financial information of the Target Company for the two financial years ended 31 December 2021 and 2022 which are prepared in accordance with China Accounting Standards for Business Enterprises ("**CASBE**"):

	Year ended 31 December 2022 *RMB million (audited)*	**Year ended 31 December 2021** *RMB million (audited)*
Revenue	242.4	987.5
Net profit before tax	123.7	42.8
Net profit after tax	116.0	41.2

	As at 31 December 2022 *RMB million (audited)*	**As at 31 December 2021** *RMB million (audited)*
Total assets	659.6	997.1
Net assets	247.8	600.3
Total liabilities	411.8	396.8

Pursuant to the audit report of the Target Company and as advised by the Management, the significant increase in net profit before tax for the year ended 31 December 2022 was mainly attributable to gain on disposal of subsidiaries and dividend income from subsidiaries amounting to RMB175.7 million in aggregate. Since the Target Company had disposed of all of its subsidiaries as at 31 December 2022, such gain and dividend income were one-off in nature.

3. Background information of CIMC Group

With reference to the Board Letter, CIMC is a joint stock company established in the PRC with limited liability. Its H Shares are listed on the main board of the Hong Kong Stock Exchange and its A Shares are listed on the Shenzhen Stock Exchange. CIMC is a world-leading supplier in equipment and solution provider in logistics and energy industries.

Currently. it is principally engaged in the manufacture of containers, road transportation vehicles, energy, chemical and liquid food equipment, marine engineering equipment, logistics services and airport facilities and equipment.

B. The Equity Transfer Agreement and the transactions contemplated thereunder

1. Reasons for and benefits of entering into the Equity Transfer Agreement

As extracted from the Letter from the Board, the disposal of the Target Company is in line with the Group's strategic planning to enhance the quality and efficiency of operation. As advised by the Management, the scale of manufacturing operation of the Target Company was not material to the Group. For the year ended 31 December 2021, the revenue and profit of the Target Company represented only approximately 3.6% and 4.2% of those of the Group, respectively. As such, the disposal of the Target Company would not have a material impact on the Group's operation. Further, after the disposal of the Target Company, it is expected that certain of the original production in the Target Company located in Longgang district of Pingshan would be absorbed by the Group's other factories in Dongguan and Jiangmen. Therefore, the disposal of the Target Company is expected to enable the Group's other factories in Dongguan and Jiangmen to achieve further economy of scale through the expected increase in production volume. Based on the foregoing and given the fact that the Target Company is to be disposed of at fair value, the Equity Transfer Agreement provides a favorable opportunity for the Group to re-arrange its production resources in the area and re-direct financial and other resources, including the proceeds from such disposal, to the existing development plans of the Group.

2. Principal terms of the Equity Transfer Agreement

As extracted from the Letter from the Board, the principal terms of the Equity Transfer Agreement are as follows:

(1) Parties to the agreement

The Company (the transferor);

CIMC Vehicle (the transferor, a wholly-owned subsidiary of the Company); and

CIMC (transferee, a connected person of the Company).

(2) Subject matter

The Company and CIMC Vehicle will sell their 75% and 25% equity interests in the Target Company, respectively while CIMC will acquire the 100% equity interests in the Target Company (inclusive of all interests, benefits attached and all rights legally entitled, and all obligations assumed in accordance with laws).

(3) Consideration

With reference to the valuation of the equity interests of the Target Company on the Valuation Date and taking into consideration of other commercial reasons and the split payment arrange (to be set out below), the parties to the Equity Transfer Agreement agree unanimously through negotiation that the transfer price of the equity interests of the Target Company in this transaction shall be RMB1,355,618,000, of which the transfer price of the 75% equity interests of the Target Company held by the Company is RMB1,016,713,500 and the transfer price of 25% equity interests of the Target Company held by CIMC Vehicle is RMB338,904,500, payable in cash.

According to the Letter from the Board, the commercial reasons taken into consideration include (1) the estimated cost of approximately RMB65 million is or to be incurred by the Group for internal restructuring arrangements in relation to changes arising from the disposal of the Target Company, including, among others, re-arranging the operating and administrative resources of the Group and the administrative procedures for reflecting the respective changes in shareholding structure; and (2) the estimated interest of approximately RMB34 million arising from the delay receipt of part of the equity transfer payment pursuant to the split payment arrangement.

(4) Payment of the Consideration

The first phase of equity transfer payment: CIMC shall pay 51% of the total consideration, i.e., to pay RMB518,523,885 to the bank account designated by the Company and pay RMB172,841,295 to the bank account designated by CIMC Vehicle within 20 working days after the Equity Transfer Agreement becomes effective.

The second phase of equity transfer payment: CIMC shall pay 9% of the total consideration, i.e., to pay RMB91,504,215 to the bank account designated by the Company and pay RMB30,501,405 to the bank account designated by CIMC Vehicle before 31 December 2023.

The third phase of equity transfer payment: CIMC shall pay 40% of the total consideration, i.e., to pay RMB406,685,400 to the bank account designated by the Company and pay RMB135,561,800 to the bank account designated by CIMC Vehicle before 31 December 2024.

As advised by the Management, in response to the above payment arrangement, among others, CIMC has agreed a consideration of the Transfer of approximately RMB1,355.6 million which represents a premium of approximately RMB99.1 million or 7.9% over the valuation of the Target Company of approximately RMB1,256.5 million. Based on our assessment, such premium amount can cover the notional interest loss arising from the delayed receipt of part of the consideration and hence, we are of the view that the above payment arrangement is fair and reasonable and in the interest of the Company and Shareholders as a whole.

(5) Effective conditions and completion

The Equity Transfer Agreement is established on the date of signing by the parties to the Equity Transfer Agreement and shall be effective on the date when all of the following conditions are satisfied:

(i) The parties to the Equity Transfer Agreement have formally signed the Equity Transfer Agreement;

(ii) The shareholders meeting of the Company have considered and approved the Transfer; and

(iii) the board of directors of CIMC has considered and approved the Transfer.

The parties to the Equity Transfer Agreement agree that each party shall use its best efforts to complete the following procedures within one month after the Equity Transfer Agreement becomes effective, in accordance with relevant laws and regulations, including (1) amending the articles of association of the Target Company to reflect the information on the equity interests of the Target Company held by CIMC in the articles of association of the Target Company; and (2) executing the registration/filing procedures for changes in the shareholders and shareholding of the Target Company, and the articles of association of the Target Company with the competent market supervision and management departments and business authorities.

(6) Declaration and undertaking by CIMC

CIMC undertakes and warrants that after the Completion, it will actively implement the undertakings previously given to the Company prior to the public offering and listing of the Company in relation to non-competition. The Transfer will not give rise to competition.

(7) Attribution of profit and loss during the transition period

The parties to the Equity Transfer Agreement agrees that the transition period starts from the Valuation Date (including Valuation Date) until the end of Completion (including the day of Completion). During the Transition Period, the Company and CIMC Vehicle shall exercise shareholder rights and fulfill shareholder obligations in accordance with the articles of association of the Target Company and legal requirements, and bear the profit or loss of the Target Company.

(8) Contingencies

Prior to the payment date of third phase of Consideration by CIMC, the Company shall bear any contingent liabilities or losses arising from events prior to Completion that leads to a difference between the book value of the assets held by the Target Company and as at Valuation Date and confirmed by the parties to the Equity Transfer.

C. Evaluation of the Consideration

Pursuant to the Equity Transfer Agreement, the Consideration is determined with reference to the appraised value of the equity interests of the Target Company, taking into consideration other commercial reasons and the payment terms of the Consideration. We have reviewed the equity valuation report (the "**Valuation Report**") prepared by Shanghai Lixin Appraisal Co., Ltd. ("**Lixin**") in respect of the valuation of the equity interest of the Target Company (the "**Equity Valuation**") and the property valuation report (the "**Property Valuation Report**") prepared by Kroll (HK) Limited ("**Kroll (HK)**") in respect of the property interests of the Target Company (the "**Property Valuation**"). We note that the Valuation Report was prepared in accordance with the Basic Rules for Asset Appraisal as issued by the Ministry of Finance of the PRC and the Practising Standards and Code of Ethics for Asset Appraisal issued by the China Appraisal Society. In respect of the Property Valuation Report, it was prepared in compliance with, among others, the HKIS Valuation Standards and Chapter 5 of the Hong Kong Listing Rules. We have discussed with Lixin regarding Equity Valuation and Kroll (HK) regarding the Property Valuation with details set out below.

(1) The Valuation Report prepared by Lixin

(i) Scope of work and qualifications of Lixin

We have reviewed the engagement letter entered into between the Company and Lixin in respect of the scope of the services of Lixin and discussed with them regarding their scope of work on the Equity Valuation. We were not aware of any limitations on the scope of work which might adversely affect the degree of assurance given by the Valuation Report.

We have discussed with Lixin regarding its qualification for the Equity Valuation. In compliance with the requirements of Rule 13.80 of the Hong Kong Listing Rules, we have also reviewed and enquired the qualification and experience of Lixin and the valuers who are in charge of the Equity Valuation. As per our discussion with Lixin, we understand that Lixin is a qualified PRC appraiser. We also noticed that Ms. Tian Jing, Ms. Chen Qi Meng and Mr. Cai Yuan, the leading persons in charge of the Equity Valuation, are all qualified valuers in the PRC who have over five years of experience in conducting valuation. As such, we are of the view that Lixin possesses sufficient experience in performing the Equity Valuation.

(ii) Valuation approach

Based on our review on the Valuation Report and our discussions with Lixin, they had considered the asset based approach, market approach and income approach in respect of the Equity Valuation. Regarding the market approach, Lixin was of the view that there were insufficient transactions of equity transfer of companies with scale of assets, asset structure, scope of operation and profitability comparable to the Target Company and hence, the market approach was considered not appropriate. For income approach, Lixin had rejected the valuation result from income approach since (i) there was a significant appreciation in value of land and buildings held by the Target Company which could not be reflected in the valuation under income approach given the fact that the cash flows adopted in the income approach are primarily the cash flows from the principal operation of the Target Company, i.e. the development, production and sale of vehicles, which are not relevant to the values of its land and buildings; and (ii) the industry that the Target Company engaged in was adversely affected by COVID which caused uncertainties in the valuation under the income approach. Since the valuation under income approach was rejected by Lixin, we have not performed analysis for income approach. For asset based approach, the valuer will scrutinise each of the identifiable assets and liabilities on the balance sheet of the subject and assess their fair values separately. Depending on the nature of the asset and liability items, the valuer may adopt different valuation approach for each item. The fair values assessed are then added up for the enterprise value. Accordingly, under the asset based approach, the land and buildings of the Target Company will be separately appraised. Hence, Lixin is of the view and we concur that the asset based approach is the suitable method for valuation of the Target Company which can, among others, better reflect the value of land and buildings held by the Target Company. As a result, Lixin has adopted the asset based approach for the conclusion of the Equity Valuation.

Pursuant to the Valuation Report, we note that the Equity Valuation of RMB1,256.5 million based on the asset based approach represented an appreciation of RMB1,008.7 million over the net assets value of the Target Company as at 31 December 2022. Such appreciated value is mainly attributable to the land and buildings of the Target Company, representing an appreciation of RMB888.7 million and RMB93.8 million over the net book values, respectively.

In performing the asset based approach, in respect of the valuation of land of the Target Company, Lixin selected certain land sales comparables that have the characteristics comparable to the land parcels held by the Target Company for direct comparison purpose. We have obtained and reviewed the supporting documents in respect of the land sales comparables selected by the Lixin. We understood that both the land held by the Target Company and the land sales comparables are located at Longgang District of Shenzhen and are industrial land and hence, considered appropriate for direct comparison purpose by Lixin. Certain adjustment factors were then applied to the reference land value from the land sales samples for adjusting the difference in, among others, length of land use rights and locations between the land parcels held by the Target Company and the land sales comparables.

In respect of the valuation of buildings of the Target Company, we noted that it was estimated primarily based on the prevailing construction costs of the buildings and the relevant newness rates. Upon our enquiry with Lixin, we were given to understand that the prevailing construction costs were estimated primarily based on the information of recently completed constructions which are comparable to the buildings held by the Target Company and/or the construction cost index as published by local government, as further adjusted for the difference in the date of construction and the structure of the buildings. We have obtained and reviewed the comparable completed construction adopted by Lixin for determining the prevailing construction costs and noted that the comparable completed construction is an industrial complex completed in 2020, located at Guangzhou and of similar structure as compared to the buildings held by the Target Company. As further advised by Lixin, there was no comparable completed construction located at Longgang District of Shenzhen while they considered that the completed construction located in Guangzhou, i.e. within the Guangdong Province, is also acceptable for comparable purpose. The newness rates adopted were estimated based on, among others, the expected economic lives and the condition of the buildings held by the Target Company. We have obtained and reviewed the calculation schedule of the newness rates and enquired Lixin for the circumstances arriving at certain newness rates, which include economic lives, structure, decoration and facilities of the buildings. As advised by Lixin, they have also considered income approach for the valuation of land and buildings of the Target Company but was concluded not applicable since the relevant land and buildings were not for rental purpose. Lixin had also performed site inspection work on the properties on 3 January 2023.

In respect of the deferred tax assets of the Target Company, there is an appreciation of approximately RMB3.1 million, or 326.7% over the net book value. The appreciation was attributable to the fact that the deferred tax liabilities (net in the deferred tax assets) arising from the fixed assets of the Target Company were valued at nil by Lixin. As understood from Lixin, the relevant deferred tax liabilities were valued at nil since they have revalued the fixed assets of the Target Company and the accounting depreciation used in the calculation of the relevant deferred tax liabilities is not applicable under the Equity Valuation. We have checked to the breakdown showing such appreciation of deferred tax assets and noted that the deferred tax liabilities arising from fixed assets were eliminated while the remaining balance of deferred tax assets was mainly related to the impairment of receivables.

In respect of the non-current liabilities, represented by deferred revenue of the Target Company, there was a depreciation of approximately RMB2.0 million, or 100% over the net book value. As understood from Lixin, the deferred revenue was related to government subsidies which have been fully received by the Target Company. As such, the balance was valued at nil from the perspective of valuation. We have checked to the supporting documents in relation to the grant and receipt of the government subsidies.

For other assets and liabilities items of the Target Company, we have checked the appraised values of respective items pursuant to the Valuation Report against the net book values pursuant to the audit report of the Target Company and noted that there were no material differences.

Based on our assessment and work done on the Equity Valuation as mentioned above, we note that the assets and liabilities of the Target Company are stated at their fair values under the Equity Valuation and we have not identified any major findings which caused us to doubt the fairness and reasonableness in arriving at their valuation. Hence, we are of the view that the valuation of the Target Company based on the asset based approach is fair and reasonable.

The Equity Valuation pursuant to the Valuation Report amounts to approximately RMB1,256.5 million. As such, the Consideration of RMB1,355.6 million represents a premium of approximately 7.9% to the Equity Valuation. We are of the view that the Consideration is fair and reasonable.

(2) The Property Valuation Report prepared by Kroll (HK)

(i) Scope of work and qualifications of Kroll (HK)

We have obtained and reviewed the engagement letter entered into between the Company and Kroll (HK) for the scope of the services of Kroll (HK) and discussed with them regarding their scope of work on the Property Valuation. We were not aware of any limitations on the scope of work which might adversely affect the degree of assurance given by the Property Valuation Report.

We have discussed with Kroll (HK) regarding its qualification for the Property Valuation. In compliance with the requirements of Rule 13.80 of the Hong Kong Listing Rules, we have also reviewed and enquired the qualification and experience of Kroll (HK) and the valuer who is in charge of the Property Valuation. As per our discussion with Kroll (HK) and pursuant to our search on public information, we understand that Kroll (HK) is a member firm of Kroll, which is an international firm that provides, among others, independent valuation advisory services. We also noticed that Ms. Elaine Ng, the leading person in charge of the Property Valuation, has over 14 years of experience in conducting valuation. As such, we are of the view that Kroll (HK) possesses sufficient experience in performing the Property Valuation.

(ii) Valuation approach

We have reviewed the Property Valuation Report and enquired with Kroll (HK) to understand the valuation approach adopted in the Property Valuation. In respect of the valuation of land held by the Target Company, Kroll (HK) has considered market approach and income approach. Income approach was not adopted since the land held by the Target Company was not for rental investment purpose. In applying market approach, Kroll (HK) had selected certain land sales comparables that have the characteristics comparable to the land parcels held by the Target Company for direct comparison purpose. We have obtained and reviewed the supporting documents in respect of the land sales comparables extracted from local government websites and selected by Kroll (HK). We understood that both the land held by the Target Company and the land sales comparables are located at Longgang District of Shenzhen and are granted for industrial use and hence, considered appropriate for direct comparison purpose by Kroll (HK). An adjustment factor was then applied to the reference land value from the land sales comparables for adjusting the difference in land use terms' length on land use rights and locations between the land parcels held by the Target Company and the land sales comparables.

In respect of the valuation of buildings held by the Target Company, Kroll (HK) has considered market approach, income approach and cost approach. Market approach was not adopted since there were insufficient transactions in respect of buildings that are comparable to the building held by the Target Company. Income approach was not adopted since the buildings held by the Target Company were specially built properties for industrial use but not for rental investment purpose. In applying the cost approach, we noted that the valuation was estimated primarily based on, among other things, the gross floor area of the relevant buildings, the cost of reproduction new ("**CRN**") depending on the usage and nature of the buildings and the relevant depreciation. Upon our enquiry with Kroll (HK), we were given to understand that the CRN was extracted from their internal database which reflects the prevailing construction cost in the vicinity after the consideration of inflation rates, labour costs and material costs. As further advised by Kroll (HK), the prevailing construction cost from their internal database was derived from certain recently completed constructions which are comparable to the buildings held by the Target Company. We have obtained and reviewed the comparable completed constructions adopted by Kroll (HK) and note that they comprised of industrial buildings (including workshop, warehouse, staff dormitory and office building), located at Dongguan and Shaoguan, completed in 2021 and 2022 and of similar structure as compared to the buildings held by the Target Company. Kroll (HK) also advised that there was no comparable completed construction located at Longgang District of Shenzhen while they considered that the comparables located in Dongguan and Shaoguan, i.e. with the Guangdong Province, are also acceptable for comparable purpose. The building useful lives adopted in the calculation of depreciation were estimated based on the shorter of the length of land use right where the buildings were erected or the standard economic lives of 50 years for buildings. Kroll (HK) had also performed site inspection work on the properties on 5 and 6 January 2023.

Based on the aforesaid, we have not identified any major findings which caused us to doubt the fairness and reasonableness in arriving at their valuation.

The Property Valuation pursuant to the Property Valuation Report amounts to approximately RMB1,105.2 million, which was not materially different from the valuation of land and buildings as extracted from the Valuation Report based on asset based approach of RMB1,104.7 million.

D. Financial effects of the disposal of Target Company on the Group

As at the Latest Practicable Date and upon the completion of this transaction, the Target Company will no longer be a subsidiary of the Company, and its financial results will no longer be consolidated to the Company's consolidated financial statements. In addition, the disposal of Target Company is expected to have the below financial effects on the Group.

(1) Gearing ratio

As at 31 December 2021, the Group's gearing ratio was approximately 11.0%. It is expected that the Group's gearing ratio will be reduced upon completion of the transaction upon the receipt of proceeds from the disposal and the derecognition of debts held by the Target Company.

(2) Earnings

The Group expects to recognise a gain on disposal of the Target Company of approximately RMB710.0 million to RMB775.0 million since the Consideration exceeded the net assets value of the Target Company as at 31 December 2022. Further, by excluding the one-off gain on disposal of subsidiaries and dividend income from subsidiaries of approximately RMB175.7 million, the Target Company would have incurred a net loss of approximately RMB59.7 million for the year ended 31 December 2022. As such, upon the completion of the transaction, the Group's net profit is expected to increase.

(3) Net assets value

As at 31 December 2022, the net assets value of the Target Company was approximately RMB247.8 million. Nonetheless, upon completion of the transaction and the receipt of proceeds from the disposal of the Target Company which exceeds the net assets value of the Target Company, the net assets value of the Group is expected to increase.

(4) Liquidity

As at 31 December 2022, the Target Company's net current assets were approximately RMB49.2 million. As a result of the transaction, the Group expects to improve its liquidity upon the receipt of proceeds from the disposal of the Target Company.

OPINION AND RECOMMENDATION

Having considered the above principal factors, we are of the opinion that although the Equity Transfer Agreement and the transaction contemplated thereunder are not in the ordinary and usual course of business of the Group, they are in the interests of the Company and Shareholders as a whole and are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders, and we advise the Independent Shareholders, to vote in favor of the ordinary resolutions to be proposed at the EGM for approving the Equity Transfer Agreement.

Yours faithfully,
For and on behalf of
Innovax Capital Limited

Richard, Chu Sai Tak
Managing Director

Note: Mr. Richard Chu is a licensed person under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO and regarded as a responsible officer of Innovax Capital Limited. Mr. Richard Chu has over 15 years of experience in corporate finance industry.