紅日資本有限公司
RED SUN CAPITAL LIMITED

18 October 2024

To: The Independent Board Committee and the Independent Shareholders of Wison Engineering Services Co. Ltd.

MAJOR AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF 35% EQUITY INTERESTS IN LEVIMA WISON (JIANGSU) ADVANCED MATERIALS CO. LTD.

I. INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders with regard to the Equity Transfer Agreement and the transactions contemplated thereunder (the "**Proposed Transaction**"). Details of which are set out in the letter from the Board (the "**Letter from the Board**") contained in the circular of the Company (the "**Circular**") to the shareholders dated 18 October 2024, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

As set out in the announcement of the Company dated 11 September 2024, on 11 September 2024 (after trading hours), Wison Engineering (an indirect wholly-owned subsidiary of the Company) (as the purchaser) and Wison (China) Investment (an indirect wholly-owned subsidiary of Wison Holding, a controlling shareholder of the Company) (as the vendor) entered into the Equity Transfer Agreement, pursuant to which the Vendor has conditionally agreed to sell, and the Purchaser has conditionally agreed to acquire, 35% equity interests in the Target Company at the consideration of RMB255,000,000 in cash.

As at the Latest Practicable Date, Wison Holding is a controlling shareholder of the Company which is indirectly interested in approximately 75.82% of the total issued share capital of the Company. Hence, Wison Holding is a connected person of the Company. As the Vendor is an indirect wholly-owned subsidiary of Wison Holding, the Vendor is also a connected person of the Company. Accordingly, the Acquisition constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

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Furthermore, as one or more of the applicable percentage ratios set out in Rule 14.07 of the Listing Rules in respect of the Acquisition exceed 25% but are less than 100%, the Acquisition constitutes a major and connected transaction of the Company under the Listing Rules, and is subject to the reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

II. THE INDEPENDENT BOARD COMMITTEE

The Board consists of seven Directors, namely Mr. Zhou Hongliang (Chief Executive Officer), Mr. Zheng Shifeng and Mr. Li Dun (Chief Financial Officer) as executive Directors, Mr. Liu Hongjun (Chairman) as non-executive Director and Mr. Lawrence Lee, Mr. Tang Shisheng and Mr. Feng Guohua as independent non-executive Directors.

The Independent Board Committee comprising all three independent non-executive Directors, namely Mr. Lawrence Lee, Mr. Tang Shisheng and Mr. Feng Guohua, has been established to advise the Independent Shareholders as to (i) whether the terms of the Equity Transfer Agreement are fair and reasonable; (ii) whether the Acquisition is on normal commercial terms or better and in the ordinary and usual course of business of the Group; (iii) whether the Acquisition is in the interests of the Company and its shareholders as a whole; and (iv) the voting action that should be taken by the Independent Shareholders.

We have been appointed to advise the Independent Board Committee and the Independent Shareholders in these respects and to give our opinion in relation to the Proposed Transaction for the Independent Board Committee's consideration when making their recommendation to the Independent Shareholders.

III. OUR INDEPENDENCE

As at the Latest Practicable Date, we were independent from and not connected with the Company, Wison Holding and their respective shareholders, directors or chief executives, or any of their respective associates or any relevant parties in connection with the Equity Transfer Agreement. Accordingly, we are qualified to give independent advice to the Independent Board Committee and the Independent Shareholders regarding the Proposed Transaction.

In the previous two years, save for this appointment and our appointment as the independent financial adviser in connection with (i) the continuing connected transactions with Wison Holdings in relation to the Engineering Design Framework Agreement, details of which are set out in the circular of the Company dated 13 October 2023; and (ii) the connected transactions in relation to the EPCIC Stage Topside Engineering Design Contract, details of which are set out in the circular of the Company dated 9 June 2023, we have not acted as an independent financial adviser to the independent board committee and the independent shareholders of the Company for any other transactions.

Apart from the normal professional fees paid or payable to us in connection with this appointment and the engagement as stated above as the Independent Financial Adviser, no arrangements exist whereby we had received or will receive any fees or benefits from the Company or any other parties that could reasonably be regarded as relevant in assessing our independence. Accordingly, we consider that we are independent pursuant to Rule 13.84 of the Listing Rules.

IV. BASIS AND ASSUMPTIONS OF THE ADVICE

In formulating our advice to the Independent Board Committee and the Independent Shareholders, we have relied solely on the statements, information, opinions, beliefs and representations for matters relating to the Group and their respective shareholders and management contained in the Circular and the information and representations provided to us by the Group and/or its senior management (the "**Management**") and/or the Directors. We have assumed that all such statements, information, opinions, beliefs and representations contained or referred to in the Circular, which have been provided by the Company, the Directors and the Management and for which they are solely and wholly responsible, were true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have assumed that all such statements, information, opinions, beliefs and representations contained or referred to in the Circular (including this letter) or otherwise provided or made or given by the Group and/or the Management and/or the Directors and for which it is/they are solely responsible were true and accurate, and valid and complete in all material respects at the time they were made and given and continue to be true and accurate, and valid and complete in all material respects as at the date of the Circular. We have assumed that all the opinions, beliefs and representations for matters relating to the Group made or provided by the Management and/or the Directors contained in the Circular have been reasonably made after due and careful enquiry. We have also sought and obtained confirmation from the Company and/or the Management and/or the Directors that no material facts have been omitted from the information provided and referred to in the Circular.

We consider that we have been provided with sufficient information and documents to enable us to reach an informed view and the Management has assured us no material information has been withheld from us to allow us to reasonably rely on the information provided so as to provide a reasonable basis for our advice. We have no reason to doubt the truth, accuracy and completeness of the statements, information, opinions, beliefs and representations provided to us by the Group and/or the Management and/or the Directors and their respective advisers or to believe that material information has been withheld or omitted from the information provided to us or referred to in the aforesaid documents. We have not, however, carried out any independent verification nor have we conducted any independent investigation into information provided by the Directors and the Management, background, business or affairs or future prospects of the Group, Wison Holding and their respective shareholder(s) and subsidiaries or affiliates, and their respective history, experience and track records, or the prospects of the markets in which they respectively operate.

V. BACKGROUND INFORMATION OF THE PROPOSED TRANSACTION

In formulating our opinion on the Proposed Transaction, we have taken into consideration the following principal factors and reasons:

1. Background information of the Group

The Company is an investment holding company. The principal activities of the Group are the provision of chemical engineering, procurement and construction management, or EPC services. The Group provides a broad range of integrated services spanning the project life cycle from technical appraisal, early project planning, feasibility studies, consulting services, provision of proprietary technologies, design, engineering, raw materials and equipment procurement and construction management to maintenance and after-sale technical support. Wison Engineering (i.e. the Purchaser) is the principal operating subsidiary of the Company.

Set out below is a summary of the Group's financial information as extracted from the Company's latest published (i) interim results announcement for the six months ended 30 June 2024 (the "**2024 Interim Results Announcement**"); and (ii) annual report for the year ended 31 December 2023 (the "**2023 Annual Report**"):

Summary of the Group's revenue breakdown by segment

	For the year ended 31 December		**For the six months ended 30 June**	
	2023	**2022**	**2024**	**2023**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(audited)	(audited)	(unaudited)	(unaudited)
Revenue	3,842,719	4,658,780	1,837,914	1,893,621
— Engineering, procurement and construction	3,528,535	4,463,620	1,687,217	1,748,402
— Engineering, consulting and technical services	314,184	195,160	150,697	145,219

As set out in the 2024 Interim Results Announcement, the Group recorded revenue of approximately RMB1,837.9 million and approximately RMB1,893.6 million for the six months ended 30 June 2024 and 2023, respectively, representing a slight decrease of approximately RMB55.7 million or 2.9%. The decrease in revenue was mainly attributable to the existing on-going EPC projects are in the early to middle stage and are expected to be delivered in the second half of 2024 to 2026, therefore their contribution to revenue was limited during the six months ended 30 June 2024.

As disclosed in the 2023 Annual Report, the Group recorded revenue of approximately RMB3,842.7 million and approximately RMB4,658.8 million for the years ended 31 December 2023 and 2022, respectively, representing a decrease of approximately RMB816.1 million or 17.5%. The decrease in revenue was mainly attributable to (i) decrease in revenue contribution since the existing projects in EPC segment acquired in prior years have already entered into middle to late construction phrase; and (ii) the limited revenue contribution since new projects acquired in 2022 and 2023 were still in early to middle construction phrase for the EPC segment. As set out above, EPC accounted for approximately 91.8% and approximately 95.8% of the Group's total revenue for the years ended 31 December 2023 and 2022, respectively.

Summary of the Group's consolidated financial position

As set out in the 2024 Interim Results Announcement, the Group recorded (i) unaudited total assets and net assets of approximately RMB10,318.6 million and RMB2,402.2 million, respectively; and (ii) unaudited cash and bank balances and pledged bank balances and time deposits of approximately RMB1,979.5 million, in aggregate, and unaudited interest-bearing borrowings of approximately RMB1,104.2 million, as at 30 June 2024.

It is noted from the Letter from the Board that the consideration of the Acquisition shall be satisfied by the Group's internal resources.

2. Information of the Target Company

The Target Company is a limited liability company established in the PRC on 23 August 2023 and is principally engaged in manufacturing and sales of chemical products (excluding licensed chemicals), specific chemical products (excluding hazardous chemicals) and synthetic materials, provision of technologies services, development, consultation, exchange, transfer, promotion, marketing services, applications and new materials research and development. Its main product is polyolefin elastomer ("**POE**"). In particular, the Target Company will focus on the production of POE, being a synthetic material for the production of high-end polyolefin used in the solar energy industry. For further details of POE, please refer to the section headed "2.2 Overview of POE market in the PRC" in this letter.

As at the Latest Practicable Date, the registered capital of the Target Company is RMB700,000,000, which is fully paid. It is held as to 35% and 65% by the Vendor and Levima Advanced Materials, respectively. To the best knowledge of the Company and after making reasonable enquiries, the initial investment of 35% equity interests of the Target Company by the Vendor was RMB245,000,000.

The audited net assets and total assets of the Target Company as at 30 June 2024 were RMB701,574,000 and RMB717,107,000, respectively. Based on the valuation on the Target Company conducted by the Independent Valuer, the appraised market value of the Target Company on the Valuation Benchmark Date was RMB742,309,000.

The financial information of the Target Company is set out as follows:

	Period from 23 August 2023 (date of establishment) to 31 December 2023	**Six months ended 30 June 2024**
	RMB'000	*RMB'000*
	(audited)	(audited)
Revenue	—	—
Net profit before tax	762	1,338
Net profit after tax	571	1,003

Upon completion of the Acquisition, the Purchaser and Levima Advanced Materials will hold 35% and 65% equity interests in the Target Company, respectively. The Target Company will not become a subsidiary of the Company (but will be an associated company of the Group) as a result of the Acquisition and hence, the financial results of the Target Company will not be consolidated into those of the Group.

2.1 Business plan and status of the Target Company

As advised by the Management, the Target Company has commenced the setup of the production line in January 2024, there are four major milestones, namely (i) the design of the "Three Major Components* (三大件)"; (ii) 30% scaled operational model inspection being satisfactorily completed; (iii) 60% scaled operational model inspection is expected to commence and completed by end of 2024; and (iv) trial production, which is to be followed by actual POE production (together the "**POE Project**").

We understand from the Management that the first two milestones have been attained as at the Latest Practicable Date and the Target Company is preparing for its 60% scaled operational model inspection, which is expected to be completed in or around fourth quarter 2024 with the setup of the production line expected to be completed by the fourth quarter of 2025, and the Target Company is expected to commence production of POE in the same quarter. Once fully operational, the production line is expected to have a production capacity of up to 100,000 tons of POE per annum.

The Management also advised that the Target Company is in the process of obtaining certain approvals/permits for trial production of POE as at the Latest Practicable Date, including an energy conservation inspection approval* (節能審查批覆) and a pollution discharge permit/registration* (排污許可證／固定污染源排污登記). To the best of the Management's knowledge and based on the actual progress of the subject project as at the Latest Practicable Date, the Management does not foresee any material difficulties in obtaining the requisite approvals and/or licenses for trial production and actual production.

As at the Latest Practicable Date, the registered capital of the Target Company is RMB700,000,000, which has been fully paid. The total estimated investment costs for the POE Project is approximately RMB2,000 million, the remaining approximately RMB1,300 million of which is expected to be funded by a combination of existing internal resources of the Target Company and external bank borrowings by the Target Company. As at the Latest Practicable Date, barring unforeseen circumstances, the Management does not expect the Group to contribute additional capital and/or financing to the Target Company for the POE Project.

2.2 *Overview of POE market in the PRC*

With reference to the website of the National Library of Medicine (www.ncbi.nlm.nih.gov), being an official website of the United States government, POE has easy processing, good chemical stability, good aging recyclability, and acoustic insulation performance, and POE foams are mainly used as cushioning and sealing materials.

According to (i) the "Fourteenth Five-Year Plan" Development Guide for the Petroleum and Chemical Industry* (石油和化學工業「十四五」發展指南) as published by China Petroleum and Chemical Industry Federation* (中國石油和化學工業聯合會) and referred to by Municipal Ecology and Environment Bureau of Wuhan* (武漢市生態環境局)[1]; and (ii) the Catalogue of Industries that Encourage Foreign Investment (version of 2022)* (鼓勵外商投資產業目錄(2022年版)) as announced by National Development and Reform Commission and Ministry of Commerce* (國家發展和改革委員會)[2] set out that key areas, including the field of high-end polyolefin with green production technology of metallocene catalyst, should be developed and that foreign investment is encouraged to develop and produce high-end polyolefins, of which POE was one of the high-end polyolefins.

[1] *Source: hbj.wuhan.gov.cn/fbjd_19/xxgkml/zwgk/wrfz/dqwrfz/202103/t20210315_1650693.html*
[2] *Source: https://www.gov.cn/zhengce/zhengceku/2022-10/28/content_5722417.htm*

Moreover, according to the data of the General Administration of Customs of the PRC[3], imports of Polymers of other olefins, in primary forms* (其他初級形狀的乙烯—α—烯烴共聚物), of which POE falls within this category, to the PRC increased from approximately 224,400 tons to approximately 860,000 tons from 2017 to 2023, demonstrating a continuous increase in demand of POE in the PRC.

It is expected that the development of the POE market in the PRC will continue to be influenced by the promotion and implementation of PRC government policies at a national and regional level, such as the development of new quality productive forces* (新質生產力), which is intended to develop the capabilities and productivities of high-end technological and strategical industries in the PRC.

VI. PRINCIPAL FACTORS AND REASONS CONSIDERED

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

We have summarised the reasons for and benefits of the Acquisition from the Letter from the Board below. The Group has focused on the strategic plan of "driven by innovations", the development and utilisation of new technologies such as new materials constitute the major focus of its business development. The Acquisition will enable the Group to (i) better implement its strategy of "driven by innovation", ensuring that the Group maintains its leading position in the face of fierce market competition; (ii) the Target Company can serve as a demonstration base for the industrialisation of high-end new materials for the Group in the future, which can incubate new cooperation and business opportunities; and (iii) the Acquisition is expected to bring stable investment income to balance the cyclical fluctuations in traditional engineering business income of the Group.

The Board believes that the Acquisition will effectively expand the Group's business operations relating to the new materials, achieve diversification, transformation and upgrading of business areas and inject new impetus into the Group's long-term development. This will enhance the core competitiveness of the Group and fully promote high-quality profitability development.

We are advised by the Company that the Group has been considering to allocate resources to examine the possibility of entering into the segment of POE aiming to diversify products within the Group to keep pace with the changing market and to improve its operating results. From time to time, the Company reviews its capacity and market conditions, and pursue possible business opportunities. We understand from the Company that POE, being the Target Company's business focus, is a material widely used as a fundamental raw material in the photovoltaic industry. Given its wide usage in the photovoltaic industry, the Company considered such Acquisition shall facilitate the Group's expansion into its new energy & new materials business. As discussed under the

[3] *Source: http://stats.customs.gov.cn/*

sub-section headed "2.2 Overview of POE market in the PRC" in the previous section in this letter, we noted the potential demand for POE and the promotional policy in the PRC.

In this connection, we have discussed with the Company and noted that (i) the production of POE requires advanced technology, specialised equipment as well as specific design to the production line. Furthermore, the production site of the Target Company needs to fulfil various requirements and maintained the required permits/ registrations with the PRC government including those as set out under the sub-section headed "2.1 Business plan and status of the Target Company" in this letter; (ii) the establishment and setup of a POE production line is not only time consuming, such would also require notable capital expenditure, however, the establishment and setup of the Target Company's POE production line is already well underway with certain key milestones having been attained. Having considered the progress made by the Target Company, the Management is of the view that participating in the Target Company via the Acquisition is more appropriate than commencing a brand new POE project of this type on its own, in particular, participating in the Target Company as a minority shareholder rather than a majority shareholder, whom is responsible for greater capital commitment in accordance with its equity holding and thereby assumes a relatively larger risk exposure. In addition, the Target Company can leverage expertise and economy of scales of its majority shareholder, being Levima Advanced Materials, a listed company on the Shenzhen Stock Exchange with a market capitalisation in the region of RMB17,000 million as at 31 August 2024, whom is also a member of the Legend Holdings Corporation, a listed company on the Stock Exchange, with sizeable operations. Furthermore, based on our review of the interim financial information of Levima Advanced Materials for the six months ended 30 June 2024, it had a net asset balance of approximately RMB7.7 billion, and cash and bank deposits of approximately RMB2.9 billion as at 30 June 2024; and (iii) the Company is optimistic about the future development of POE in the PRC. On this basis, we concur with the Directors that the Acquisition is in the interests of the Company and the Shareholders as a whole.

2. Principal terms of the Equity Transfer Agreement

The following information has been extracted from the Letter from the Board:

Date	:	11 September 2024
Parties	:	(1) Wison Engineering (as the Purchaser); and (2) Wison (China) Investment (as the Vendor)
Assets to be acquired	:	The Vendor has conditionally agreed to sell, and the Purchaser has conditionally agreed to acquire, 35% equity interests in the Target Company subject to the terms and conditions of the Equity Transfer Agreement.

Consideration	:	The consideration of the Acquisition is RMB255,000,000, which will be financed by the Group's internal resources. The aforesaid consideration was determined after arm's length negotiations between the Vendor and the Purchaser with reference to the appraised market value of the Target Company of RMB742,309,000 on the Valuation Benchmark Date, which was appraised by the Independent Valuer.
Payment terms	:	The consideration shall be paid by the Purchaser by cash to such bank account as designated by the Vendor in the following manner: (i) the first installment in the sum of RMB63,750,000 (representing 25% of the consideration) shall be paid within three months of the date of the Equity Transfer Agreement; and (ii) the second installment in the sum of RMB191,250,000 (representing the remaining 75% of the consideration) shall be paid within 18 months after the date of the Equity Transfer Agreement.

Further details of the principal terms of the Equity Transfer Agreement are set out in the Letter from the Board.

3. Analysis on the principal terms of the Equity Transfer Agreement and work performed

3.1 Basis for determining the consideration of the Acquisition

The consideration was determined after arm's length negotiations between the Vendor and the Purchaser with reference to the appraised market value of the Target Company of RMB742,309,000 on the Valuation Benchmark Date as appraised by the Independent Valuer (the "**Appraised Value**").

According to the Valuation Report as set out in Appendix V to the Circular, the fair value of 100% equity interest in the Target Company was approximately RMB742.3 million as at 30 June 2024. It is noted from the Independent Valuer that for the period commencing on the Valuation Benchmark Date and ended on the Latest Practicable Date, which was in the region of four months apart, there were (i) no material changes on the operational status and financial positions of the Target Company, as confirmed by the Company; and (ii) no further new comparable land transactions in the locality were identified, based on the desktop search conducted by the Independent Valuer. On this basis and having considered our work performed, including our discussion with the Independent Valuer and the Company, we understood the basis of the view from the Independent Valuer that there is no material difference on the Appraised Value from the Valuation Benchmark Date to the Latest Practicable Date.

It is also noted that the consideration for the Acquisition of RMB255.0 million represents a discount of approximately 1.8% to the corresponding valuation of the 35% equity interest in the Target Company of approximately RMB259.8 million. Having considered that (i) the basis of discount was determined after arm's length negotiations; (ii) the corresponding valuation of the 35% equity interest is based on the Appraised Value as appraised by the Independent Valuer, which represents the fair market value, being "the price at which the property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or to sell and both having reasonable knowledge of relevant facts" in accordance with the International Valuation Standards; and (iii) given the factors as set out under (ii) above, the consideration for the Acquisition shall therefore be fair and reasonable even without the discount with reference to the Appraised Value, we are of the view that the basis of consideration for the Acquisition, which includes a discount to Appraised Value, is fair and reasonable.

We further understand from the Independent Valuer that the asset-based valuation approach was adopted by the Independent Valuer for the valuation of the Target Company after considering the three commonly adopted valuation approaches, namely the market approach, the income approach and the asset-based approach.

The Independent Valuer has considered the principal business of the Target Company, being the manufacturing and sales of chemical products (excludes licensed chemicals), specific chemical products (excludes hazardous chemicals) and synthetic materials, provision of technologies services, development, consultation, exchange, transfer, promotion, marketing services, applications and new materials research and development. However, as there are only a small number of comparable companies based on the selection criteria of listed comparable companies with sufficient public available information, and that these companies are considered to be different from that of the Target Company in terms of main products, enterprise scale and business composition. As a result, the market approach was not considered to be appropriate in the valuation as the comparability requirement was not met.

The income valuation approach was also considered to be not appropriate as it was difficult to objectively and reasonably predict the expected returns brought by the overall profitability of the Target Company, and it was challenging to qualitatively judge or roughly quantify the risks associated with the future income generation for the appraised entity, which failed to provide a basis for the estimation of long-term forecast.

Lastly, the asset-based approach was considered to be the most appropriate valuation approach because the Appraised Value can be determined based on the composition of the Target Company's balance sheet as the Target Company has yet to commence its operations and therefore most of its value can be attributable to the costs it has incurred and the appraised value of the assets it possess.

3.2 Our work performed on the Valuation Report

With a view to evaluate the basis of the Appraised Value of the Target Company, we have reviewed and discussed the contents of the valuation report (the "**Valuation Report**") with representative of the Independent Valuer.

As part of our work performed, we have reviewed the key assumptions adopted by the Independent Valuer as set out under the sector headed "12. Valuation Assumptions" in the Valuation Report. We understand from the Independent Valuer that these key assumptions are in line with other similar valuation conducted by the Independent Valuer and is therefore considered to be reasonable.

We have discussed with representative of the engagement team of the Independent Valuer as to their expertise, valuation experience, their scope of work and valuation procedures conducted in relation to the valuation of the Target Company. In relation to the expertise of the Independent Valuer, we noted that the signor of the Valuation Report, Mr. Damon S.T. Wan is a charterholder of Chartered Financial Analyst, a Certified FRM and a member of Royal Institution of Chartered Surveyors, who has over sixteen years of experience in the professional valuation field. In relation to the scope of work, we noted from the engagement letter entered into between the Company and the Independent Valuer that the scope of work was appropriate for the Independent Valuer to form the opinion required to be given and there were no limitations on the scope of work which might adversely impact the degree of assurance given by the Independent Valuer in the Valuation Report. Having considered the above, we are of the view that the Independent Valuer are qualified, experienced and competent in performing business valuations and providing a reliable opinion in respect of the valuation of the Target Company, and we are not aware of any matters that would cause us to doubt the Independent Valuer's expertise and the sufficiency of the scope of work.

We have also discussed with the Independent Valuer on the selection of its valuation methodology. The analysis and the appropriateness of each of the three commonly adopted valuation methods, namely the market approach, the income approach and the asset-based approach, have been set out in the sub-section of headed "3.1 Basis for determining the consideration of the Acquisition" in this letter above.

We noticed and understand from the Valuation Report that the valuation was carried on adjusted net assets method ("**Adjusted NAV**"), of which all of the subject's individual asset and liability account categories are analysed and valued separately. The value of the individual assets (both tangible and intangible) less the value of the liabilities (both recorded and contingent) represents the subject business value. The Adjusted NAV is a common method for estimating the value of business which is still under development. Details of which are set forth below:

It is noted from the Valuation Report that the book value of total assets of the Target Company as of the Valuation Benchmark Date was RMB717,107,000 compared to the revaluation of RMB757,842,000, representing an appreciation in the amount of RMB40,735,000. The increase in the valuation of total assets as compared to its book value was primarily due to the increase in the revaluation of right-of-use assets.

The book value of total liabilities of the Target Company as of the Valuation Benchmark Date was RMB15,533,000 compared to the appraised value of was RMB15,533,000, no adjustment was made for the revaluation.

We noted from the Valuation Report that the assets mainly include (i) cash and bank balances, primarily related to the bank balance; (ii) prepayments and other receivables, primarily being the tax assets associated with the input tax to be credited of the value-added tax borne by the Target Company, fair value was estimated as approximating to the respective carrying amount; (iii) property, plant and equipment, primarily consisted of structures, machineries, equipment and fixtures, as well as the construction in progress in relation to the construction and set-up cost of the POE project; (iv) right-of-use assets, the land use rights of the factory construction site of the POE project, have been valued by using direct comparison approach (as discussed below); and (v) other non-current assets, mainly comprised of construction prepayments in relation to the POE project to the third-party suppliers, fair value was estimated as approximating to the respective carrying amount.

For the liabilities of the Target Company, which amounted to approximately RMB15.5 million, which comprised of (i) trade payables of approximately RMB12.4 million, mainly referred to the non-interest-bearing payables mainly associated with the procurement of property, plant and equipment and construction service engagements, and shall be settled by the Target Company within one year from the Valuation Date, the Independent Valuer have checked and reviewed information including but not limited to the creditors' names and payable amount as provided by the Management; (ii) other payables and accruals of approximately RMB3.0 million; and (iii) tax payable of approximately RMB0.2 million. In view of the nature of these liabilities, the Independent Valuer considers that their book values are able to represent the fair value of the liabilities given the discounting effect of value on these items shall be minimal, and market value adjustment to the liabilities is not necessary. Accordingly, in appraising the market value of the liabilities of the Target Company, the Independent Valuer has based such balances on their book value as at 30 June 2024.

We noted from the Valuation Report that in the course of measurement, the Independent Valuer has made relevant enquiries to and obtained necessary information from the Management about the assets and liabilities for the six months ended 30 June 2024.

For prepayments and other receivables, the Independent Valuer have checked and reviewed against the relevant receivable information as provided by the Management, including but not limited to the debtors' names and exposure amount.

In relation to the property, plant and equipment, we noted from the Independent Valuer that they have checked and reviewed the information of the equipment and fixtures provided by the Management including but not limited to names, quantity, specifications, models and carrying amount.

For the liabilities, which comprised of mainly trade payables, the Independent Valuer have checked and reviewed information including but not limited to the creditors' names and payable amount as provided by the Management.

The assets and liabilities and other items involved in the Valuation Report were checked and reviewed by the Independent Valuer in accordance with normal procedures, and no matters affecting the asset valuation work were found by the Independent Valuer.

We noted from the Valuation Report that there was an increase in the value of right-of-use assets from its book value of approximately RMB86.4 million to a revaluation of approximately RMB127.1 million. The right-of-use assets represent the interests in three parcels of land, which are located in Binjiang Town, Taixing City, Jiangsu Province, the PRC (the "**Land Parcels**"). In determining the market value on the right-of-use assets, the Independent Valuer advised that it has considered the characteristics of the Land Parcels such as location, site areas, adopted plot ratio, unexpired tenure and usage. Comparable lands (which provide the basis/range on sale price per unit gross floor area ("**GFA**") when making the fair value measurement) are identified by the Independent Valuer.

To examine the selection of the comparable lands by the Independent Valuer, we have (i) obtained from the Independent Valuer and examined the source of information of the comparable lands; (ii) conducted independent desktop search on the comparable lands and retrieved information about the comparable lands on a sample basis with the following criteria, (a) the comparable lands were within the same district (i.e. Binjiang District, Taixing City, Jiangsu Province, the PRC (中國江蘇省泰興市濱江區)); (b) the land usage was industrial usage; (c) the timing of the land transactions were conducted within one year from the month of Valuation Benchmark Date (i.e. June 2023 to June 2024), however, only limited samples of land transactions were identified during such period, we therefore extend the review period from one year to two years from the month of Valuation Benchmark Date (i.e. June 2022 to June 2024). In this connection, we have identified 8 samples, the sample size of which is considered to be sufficient and representative of the prevailing market price. We have also compared the aforesaid characteristics of the Land Parcels from the desktop search conducted with those of the comparable lands and noted that, among others, the comparable lands locate in the same district and are of the same usage as the Land Parcels, the results from desktop search was in line with those comparable lands provided by the Independent Valuer, thus, we consider that our research on the comparable lands to be sufficient and representative; and (iii) examined the basis of selection of the comparable lands by the Independent Valuer and noted that the location (i.e. Binjiang District, Taixing City, Jiangsu Province, the PRC (中國江蘇省泰興市濱江區)), the land usage (i.e. industrial use) and the timing of the land transactions (i.e. conducted during 2022 to 2024) were taken into account as the selection criteria. We consider such selection criteria is relevant to facilitate the comparison and the comparable lands carrying similar characteristics as the Land Parcels could serve as an appropriate reference for the recent market value of the land use right of the Land Parcels. Based on the above, we consider the selection of the comparable lands to be reasonable. In arriving at the market value of the Target Company's right-of-use assets, the Independent Valuer applied the sale price per unit GFA of the comparable lands to the Land Parcels and adopted an adjustment rate to reflect the remaining years of the land use right of the Land Parcels. To examine the market value adjustment on the right-of-use assets, apart from the aforementioned work performed by us on the selection of the comparable lands, we have also, among others, (i) examined the basis for applying the sale price per unit GFA of the comparable lands in the adjustment and note the comparable lands were generally sold at the similar range of unit sale price, and considered that it is reasonable to apply the adopted unit sale price for each of the Land Parcels; (ii) examined the reason/basis for applying certain adjustments made on the unit price per square metre of the comparable land, including, the time and size adjustment. The comparable land transactions were completed within two years from the Valuation Benchmark Date, and therefore the unit rates of the land comparables are adjusted for the expected price changes from the respective transaction completion date to the Valuation Benchmark Date by making reference to the industrial land price index in the locality. The unit rates of the properties with smaller size are generally higher, and vice versa, attributable to general market practise. Therefore, downward adjustments are made for the land comparables with the GFA smaller than the subject land, and vice versa, hence the Independent Valuer considered that the adjustments are reasonable and the Appraised Value reflects the value of the land use right of the Land Parcels at its current status; (iii) examined the reason for applying the median of the comparable lands, of which the Independent Valuer have considered mean and median, and considered applying the median to be the most representative of the two as it could minimise the impact of outliers, and given the reasoning and basis as set out above, we concur with the Independent Valuer that applying the median is fair and reasonable; and (iv) cross-checked the major calculations in relation to the fair value adjustment as shown in valuation workings prepared by the Independent Valuer.

Accordingly, the Independent Valuer appraised the fair value of the Target Company's right-of-use assets to be approximately RMB127.1 million as at 30 June 2024. After taking into account the revaluation, the appraised value of the Target Company's total assets was approximately RMB757.8 million as at 30 June 2024.

Our view

Based on our review of the Valuation Report and discussion with the Independent Valuer regarding, among others, the scope of work and experiences of the Independent Valuer, the reasons and appropriateness of adopting the adjusted net assets method for the valuation of the Target Company, the basis, assumptions and methodology adopted in the Valuation Report, and the valuation work and adjustments performed by the Independent Valuer, nothing has come to our attention that causes us to doubt the reasonableness of the preparation of the Valuation Report. In the view of the above, we consider that the valuation performed by the Independent Valuer as well as the basis, assumptions and methodology adopted in the Valuation Report to be appropriate.

When assessing the consideration of the Acquisition, we have, among others, (i) considered the background of the Target Company, reviewed the Equity Transfer Agreement as well as the accountants' report of the Target Company prepared by the auditors of the Company; (ii) considered the registered and paid up capital of the Target Company attributable to the 35% equity interest under the Acquisition as at the date of the Equity Transfer Agreement and conducted desktop search on the Target Company in this respect; (iii) reviewed the Letter from the Board setting out the basis and factors considered by the Directors in determining the consideration; (iv) reviewed the Valuation Report, interviewed representative of the Independent Valuer and obtained the valuation workings and related documents to examine its selection basis of the valuation methodology, major assumptions adopted, details of its work procedures/work done with respect to the balance sheet items of the Target Company under the adjusted net assets method and any valuation adjustments made thereto, and its relevant valuation experience to conclude our view relating to the valuation of the Target Company, details of which are set out under the sub-section headed "3.2 Our work performed on the Valuation Report" in this letter above; (v) noted that the consideration represents a discount to the corresponding appraised market value of the Target Company as at 30 June 2024; and (vi) the factors considered as discussed under the section headed "1. Reasons for and benefits of entering into the Equity Transfer Agreement" in this letter, we concur with the Directors that the terms of the Equity Transfer Agreement are fair and reasonable and the Acquisition is in the interests of the Company and the Shareholders as a whole.

4. Financial effect of the Acquisition

Based on our discussion with and the representation from the Directors, we understand from the Directors that they have taken into account the following factors when they considered the potential impact of the Acquisition on the financial positions of the Group, where the Target Company become an associate of the Company and will be accounted for as an investment in associate in the consolidated financial statements of the Group. However, as it will not be a subsidiary of the Company upon completion of the Acquisition, the financial position and results of the Target Company will not be consolidated into those of the Group on a line-by-line basis:

(i) Net asset value

According to the 2024 Interim Results Announcement, the Group's net assets as at 30 June 2024 were approximately RMB2,402.2 million. Based on the unaudited pro forma financial information of the Enlarged Group as set out in Appendix IV to the Circular, assuming the Acquisition had been completed, the net assets of the Enlarged Group would be approximately RMB2,415.2 million.

(ii) Liquidity

According to 2024 Interim Results Announcement, the Group's cash and bank balances as at 30 June 2024 were approximately RMB1,248.9 million, and generated net cash inflow from operating activities of approximately RMB364.8 million during the six months ended 30 June 2024. As set out in the Letter from the Board, the consideration shall be settled by the Group's internal resources. On this basis, the cash and bank balance of the Group will decrease as a result of the Acquisition.

It should be noted that the aforementioned analysis is for illustrative purposes only and do not purport to represent how the financial positions of the Group will be upon completion.

VII. RECOMMENDATION

Having considered the abovementioned principal factors and reasons, we are of the view that although the Acquisition is not conducted in the ordinary and usual course of business of the Group, the terms of the Equity Transfer Agreement are fair and reasonable and on normal commercial terms so far as the Independent Shareholders are concerned and the entering into of the Equity Transfer Agreement is in the interests of the Company and the Shareholders as a whole. We therefore advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Acquisition and the transactions contemplated under the Equity Transfer Agreement.

Yours faithfully,
For and on behalf of
Red Sun Capital Limited

Jimmy Chung
Managing Director

Mr. Jimmy Chung is a licensed person registered with the Securities and Futures Commission of Hong Kong and responsible officers of Red Sun Capital Limited to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO. Mr. Jimmy Chung has over 25 years of experience in corporate finance industry.

* *For identification purposes only*