

3 October 2023

*To: the Independent Board Committee*

Dear Sirs,

**UNCONDITIONAL MANDATORY CASH OFFER  
BY OPUS SECURITIES LIMITED  
FOR AND ON BEHALF OF THE OFFEROR TO  
ACQUIRE ALL THE ISSUED SHARES IN  
KINGWISOFT TECHNOLOGY GROUP COMPANY LIMITED  
(OTHER THAN THOSE ALREADY OWNED AND/OR  
AGREED TO BE ACQUIRED BY THE OFFEROR,  
ITS ULTIMATE BENEFICIAL OWNERS AND  
PARTIES ACTING IN CONCERT WITH ANY OF THEM)**

**INTRODUCTION**

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee in respect of the Offer, details of which are set out in the “Letter from the Board” of this Composite Document to the Offer Shareholders dated 3 October 2023, of which this letter forms part. Unless the context otherwise requires, capitalised terms used in this letter shall have the same meanings as those defined in this Composite Document.

The Board was informed that, in order to enhance: (i) the stability of the control and the long-term development of the Company; and (ii) the efficiency of the decision making process of the Company at the shareholders’ level by virtue of Mr. Hu’s knowledge and experience in the relevant industry, on 28 August 2023 (after trading hours), Zhongzhi Xinzhuo, Kang Bang (HK) and Mr. Hu entered into the Voting Rights Entrustment Deed, pursuant to which each of Zhongzhi Xinzhuo and Kang Bang (HK) has entrusted the voting rights over all of its 2,409,823,718 Shares (representing approximately 50.46% shareholding interest in the Company as at the Latest Practicable Date) and 455,820,525 Shares (representing approximately 9.54% shareholding interest in the Company as at the Latest Practicable Date), respectively, in the Company to Mr. Hu. No cash consideration or other forms of consideration are, or will be, payable by any party to the Voting Rights Entrustment Deed for or as a result of entering into the Voting Rights Entrustment Deed or the Voting Entrustments contemplated thereunder.

Prior to the Voting Entrustments, Mr. Hu and his concert parties (the Offeror and Ms. Zhou/FUNGHWA) held approximately 6.82% shareholding interest in the Company. As a result of the Voting Entrustments: (i) Mr. Hu acquires control over 60% of the voting rights of the Company; and (ii) as Mr. Hu, Zhongzhi Xinzhuo and Kang Bang (HK) are considered as parties acting in concert pursuant to the Voting Entrustments, Mr. Hu and his concert parties (including the Offeror, Zhongzhi Xinzhuo, Kang Bang (HK) and Ms. Zhou/FUNGHWA) will collectively control approximately 66.82% of the voting rights of the Company. Accordingly, Mr. Hu is required to make an unconditional mandatory cash offer for all the issued Shares (other than those already owned and/or agreed to be acquired by Mr. Hu and his concert parties) under Rule 26.1 of the Takeovers Code. Mr. Hu is making the Offer via the Offeror.

Opus Securities is, for and on behalf of the Offeror and in compliance with the Takeovers Code, making the Offer to acquire all the Offer Shares at the Offer Price of HK\$0.0304 per Offer Share which is set at the volume weighted average price of the Shares on the Last Trading Day (i.e. 25 July 2023).

Pursuant to Rule 2.1 of the Takeovers Code, the Independent Board Committee, comprising all the independent non-executive Directors who have no direct or indirect interest in the Offer, namely, Mr. Stephen MARKSCHEID, Mr. ZHANG Weidong, Mr. ZENG Liang and Mr. WANG Li, has been established to advise and give a recommendation to the Offer Shareholders in respect of the Offer as to whether the Offer is fair and reasonable and as to the acceptance of the Offer. We, Rainbow Capital, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee in the same regard and such appointment has been approved by the Independent Board Committee in accordance with Rule 2.1 of the Takeovers Code.

We are not associated or connected financially or otherwise with the Company, the Offeror, their respective substantial shareholders and professional advisers, or any party acting, or presumed to be acting, in concert with any of them. In the last two years prior to the commencement of the Offer Period, there was no engagement or connection between the Group, the Offeror or Mr. Hu on one hand and us on the other hand. Apart from normal professional fees payable to us in connection with this appointment as the Independent Financial Adviser, no other arrangement exists whereby we will receive any fees or benefits from the Company, the Offeror, their respective substantial shareholders and financial or other professional advisers, or any party acting, or presumed to be acting, in concert with any of them. As such, we are qualified to give independent advice to the Independent Board Committee in respect of the Offer pursuant to Rule 2.6 of the Takeovers Code.

## **BASIS OF OUR OPINION**

In formulating our opinion and advice, we have considered, among other things, (i) the information and facts contained or referred to in this Composite Document; (ii) the annual reports of the Company for the two years ended 31 March 2023 (the “**2022 Annual Report**” and “**2023 Annual Report**”, respectively) and the first quarterly report of the Company for the three months ended 30 June 2023 (the “**2023 Q1 Report**”); (iii) the information and

opinions provided by the Directors and the management of the Group; and (iv) our review of the relevant public information. We have assumed that all the information provided and representations and opinions expressed to us or contained or referred to in this Composite Document were true, accurate and complete in all material respects as at the date thereof and may be relied upon. We have also assumed that all statements contained and representations made or referred to in this Composite Document are true in all material respects at the time they were made and continue to be true in all material respects as at the Latest Practicable Date and all such statements of belief, opinions and intentions of the Directors and the management of the Group and those as set out or referred to in this Composite Document were reasonably made after due and careful enquiry. We have no reason to doubt the truth, accuracy and completeness of such information and representations provided to us by the Directors and the management of the Group. We have also sought and received confirmation from the Directors that no material facts have been withheld or omitted from the information provided and referred to in this Composite Document and that all information or representations provided to us by the Directors and the management of the Group are true, accurate, complete and not misleading in all material respects at the time they were made and continued to be so until the Latest Practicable Date.

The Offer Shareholders will be informed by the Group and us as soon as possible if there is any material change to the information disclosed in this Composite Document during the Offer Period, in which case we will consider whether it is necessary to revise our opinion and inform the Independent Board Committee and the Offer Shareholders accordingly.

We consider that we have reviewed sufficient information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in this Composite Document so as to provide a reasonable basis for our recommendation. We have not, however, carried out any independent verification of the information provided, representations made or opinion expressed by the Directors and the management of the Group, nor have we conducted any form of in-depth investigation into the business, affairs, operations, financial position or future prospects of the Company, the Offeror or any of their respective subsidiaries and associates.

We have not considered the tax and regulatory implications on the Offer Shareholders of acceptance or non-acceptance of the Offer since these depend on their individual circumstances. In particular, the Offer 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

Opus Securities is, for and on behalf of the Offeror and in compliance with the Takeovers Code, making the Offer to acquire all the Offer Shares (other than those already owned and/or agreed to be acquired by the Offeror, its ultimate beneficial owners and parties acting in concert with any of them) on the following basis:

**For each Offer Share . . . . . HK\$0.0304 in cash**

As at the Latest Practicable Date, the Company has 4,776,019,590 Shares in issue. The Company does not have any outstanding options, warrants or derivatives or securities which are convertible or exchangeable into Shares and has not entered into any agreement for the issue of such options, derivatives, warrants or securities which are convertible or exchangeable into Shares.

The Offer Price is set at the volume weighted average price of the Shares on the Last Trading Day (i.e. 25 July 2023), which is HK\$0.0304 per Share. The Offer Price has been rounded up to four decimal places. The Offer is made to the Offer Shareholders. As the Offeror, its ultimate beneficial owners and parties acting in concert with any of them control in aggregate the voting rights of 3,191,175,381 Shares immediately following the entering into of the Voting Rights Entrustment Deed, 1,584,844,209 Shares are subject to the Offer. Based on the Offer Price of HK\$0.0304 per Offer Share, the maximum amount of offer consideration payable under the Offer will be approximately HK\$48,179,264. The Company has not declared and has no intention of declaring any dividend or making any distribution before the close of the Offer, and there is no dividend or distribution of the Company which remains unpaid as at the Latest Practicable Date.

The Offer is unconditional in all respects and is not conditional upon acceptances being received in respect of a minimum number of Shares or any other conditions.

Further details of the Offer including, among other things, the expected timetable and the terms and procedures for acceptance of the Offer are set out in the sections headed “Expected timetable”, “Letter from Opus Securities” and “Further terms and Procedures of Acceptance of the Offer” to this Composite Document and the Form of Acceptance.

## 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 and historical financial performance of the Group

The Group is principally engaged in investment holding, provision of back-office services (primarily provision of customer service solutions, and setting up of contact service systems and centres), comprehensive marketing and agency services and data centre services. On 15 October 2020, the Group acquired KingNine and its subsidiaries (collectively, the

“KingNine Group”), which became the Group’s principal operating subsidiaries and major source of operating revenue. During the year ended 31 March 2022 (“FY2022”), the Group disposed of subsidiaries which were principally engaged in provision of corporate advisory services, investment advisory services, asset management services and money lending business. During the year ended 31 March 2023 (“FY2023”), the Group acquired two companies which were principally engaged in provision of back-office services and technology services on the local life service sector (including food and beverage, leisure, shopping and entertainment, hotel and traveling, and mobility, etc), respectively.

(i) *Financial performance*

Set out below is a summary of (a) the audited financial information of the Group for FY2022 and FY2023 as extracted from the 2023 Annual Report; and (b) the unaudited financial information of the Group for the three months ended 30 June 2022 and 2023 (“Q1 2022” and “Q1 2023”, respectively) as extracted from the 2023 Q1 Report:

	<b>FY2022</b> <i>RMB'000</i> <i>(audited)</i> <i>(restated)</i>	<b>FY2023</b> <i>RMB'000</i> <i>(audited)</i>	<b>Q1 2022</b> <i>RMB'000</i> <i>(unaudited)</i> <i>(restated)</i>	<b>Q1 2023</b> <i>RMB'000</i> <i>(unaudited)</i>
<b>Continuing operations</b>				
<b>Revenue</b>	<b>734,021</b>	<b>888,622</b>	<b>190,037</b>	<b>271,656</b>
— Back-office services:	694,439	836,974	177,998	255,773
(a) Provision of customer service solutions	693,776	835,634	177,871	255,773
(b) Set up of contact service systems and centres	663	1,340	127	—
— Comprehensive marketing and agency services	18,097	26,135	5,905	10,512
— Data centre services	21,485	25,513	6,134	5,371
<b>Gross profit</b>	<b>187,074</b>	<b>121,238</b>	<b>37,941</b>	<b>29,128</b>
Other income and losses, net	31,655	160,801	2,785	19,484
Marketing expenses	(9,235)	(5,876)	(1,048)	(2,193)
Research and development expenses	(28,114)	(36,394)	(6,748)	(9,483)
Administrative expenses	(87,654)	(85,681)	(16,574)	(21,726)
Impairment loss of goodwill	—	(349,385)	—	—
Gain on derecognition of financial assets measured at amortised cost	13,936	—	—	—
Finance costs	(17,067)	(25,471)	(5,160)	(5,719)

	<b>FY2022</b> <i>RMB'000</i> <i>(audited)</i> <i>(restated)</i>	<b>FY2023</b> <i>RMB'000</i> <i>(audited)</i>	<b>Q1 2022</b> <i>RMB'000</i> <i>(unaudited)</i> <i>(restated)</i>	<b>Q1 2023</b> <i>RMB'000</i> <i>(unaudited)</i>
<b>Profit/(loss) before tax</b>	<b>84,016</b>	<b>(236,956)</b>	<b>11,185</b>	<b>9,491</b>
Income tax (expense)/credit	(12,886)	942	1,684	2,636
<b>Profit/(loss) attributable to the Shareholders</b>	<b>80,350</b>	<b>(230,136)</b>	<b>12,510</b>	<b>11,487</b>
— from continuing operations	74,525	(230,136)	12,510	11,487
— from discontinued operations	5,825	—	—	—

*Note:* in preparation for the consolidated financial statements of the Group for FY2023, the management of the Group noted a misstatement in its consolidated statement of profit or loss and other comprehensive income for FY2022 in relation to certain transactions of the Group's comprehensive marketing and agency services in which the Group acted as an agent rather than a principal based on a re-assessment of those transactions. Accordingly, the revenue and the related cost of services for FY2022 and Q1 2022 are restated and recognised in net amount instead of in gross amount, and the corresponding contract liabilities are restated and reclassified to other payables as at 31 March 2022.

#### *FY2023 compared to FY2022*

For FY2023, the Group's revenue from continuing operations was approximately RMB888.6 million, representing an increase of approximately 21.1% from approximately RMB734.0 million for FY2022. Such increase was mainly driven by the increase in the revenue from back-office services by approximately 20.5%, as the Group acquired a number of customers in the field of internet marketing services by deepening the incremental market of the whole industry. With the changes in consumer habits and behaviors brought about by the pandemic, such as people getting used to purchasing groceries online and spending more time on short videos, live streaming and other leisure activities, the e-commerce, live streaming services and other innovative businesses have continued to improve and bring significant growth of approximately 44.4% on the comprehensive marketing and agency services business.

The Group's gross profit from continuing operations decreased by approximately 35.2% from approximately RMB187.1 million for FY2022 to approximately RMB121.2 million for FY2023, primarily attributable to the increase in costs of services including staff costs, subcontracting fees, rental expenses, depreciation and amortisation as a result of the proactive measures taken by the Group for the COVID-19 pandemic prevention and control as well as the setting up of new contact centres yet to reach their optimal operating scale.

The Group recorded a loss attributable to the Shareholders from continuing operations of approximately RMB230.1 million for FY2023 as compared to a profit attributable to the Shareholders from continuing operations of approximately RMB74.5 million for FY2022. The loss was primarily attributable to (a) the decrease in gross profit as mentioned above; (b) the increase in research and development expenses and finance costs by approximately RMB8.3 million and RMB8.4 million, respectively; (c) the recognition of a non-cash impairment loss on goodwill of the cash-generating unit of the KingNine Group of approximately RMB349.4 million based on the Group's assessment on the latest available information and the overall economic environment; and (d) the decrease in a gain on derecognition of financial assets measured at amortised cost of approximately RMB13.9 million, which was partially offset by the increase in net other income and losses by approximately RMB129.1 million mainly attributable to the Group's recognition of a fair value gain on contingent consideration which was the compensation for the shortfall between the guaranteed profit and actual net profit of the KingNine Group for FY2023. Excluding the non-cash impairment loss on goodwill, the Group would have recognised profit from continuing operations of approximately RMB113.4 million.

*Q1 2023 compared to Q1 2022*

For Q1 2023, the Group's revenue from continuing operations was approximately RMB271.7 million, representing an increase of approximately 42.9% from approximately RMB190.0 million for Q1 2022. Such increase was mainly driven by the increase in the revenue from back-office services and comprehensive marketing and agency services by approximately 43.7% and 78.0%, respectively, resulting from the full resumption of normalised operation of China's economy and society as well as the recovery and increase in the Group's client service needs since the beginning of 2023. The Group has also consolidated its leading position in its advantageous fields such as the internet and telecommunications operators.

The Group's gross profit from continuing operations decreased by approximately 23.3% from approximately RMB37.9 million for Q1 2022 to approximately RMB29.1 million for Q1 2023, primarily attributable to the increase in costs of services including staff costs, subcontracting fees, rental expenses, depreciation and amortisation.

The Group's profit attributable to the Shareholders from continuing operations decreased by approximately 8.2% from approximately RMB12.5 million for Q1 2022 to approximately RMB11.5 million for Q1 2023. Such decrease was primarily attributable to (a) the decrease in gross profit as mentioned above; and (b) the increase in research and development expenses and administrative expenses by approximately RMB2.7 million and RMB5.2 million, respectively, which was partially offset by the increase in net other income and losses by approximately



RMB16.7 million mainly attributable to the increases in exchange gain and government grants and subsidies as compared to those of the corresponding period in 2022.

**(ii) Financial position**

Set out below is a summary of the consolidated statements of financial position of the Group as at 31 March 2021, 2022 and 2023 as extracted from the 2022 Annual Report and the 2023 Annual Report:

	<b>As at 31 March</b>		
	<b>2021</b>	<b>2022</b>	<b>2023</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>
		<i>(restated)</i>	
<b>Non-current assets, including:</b>	<b>845,446</b>	<b>907,907</b>	<b>634,712</b>
— Property and equipment	28,068	70,501	95,517
— Right-of-use assets	28,119	42,370	52,916
— Goodwill	581,824	581,824	281,580
— Other intangible assets	184,693	184,076	180,121
<b>Current assets, including:</b>	<b>569,995</b>	<b>666,193</b>	<b>858,113</b>
— Accounts receivables	311,326	485,259	599,312
— Prepayments, other receivables and other assets	48,393	88,630	80,516
— Cash and cash equivalents	202,710	86,047	163,697
<b>Total assets</b>	<b>1,415,441</b>	<b>1,574,100</b>	<b>1,492,825</b>
<b>Current liabilities, including:</b>	<b>168,385</b>	<b>314,167</b>	<b>239,415</b>
— Other payables and accruals	38,689	59,524	105,220
— Consideration payables	70,000	70,000	28,519
— Interest-bearing bank and other borrowings	29,000	140,779	68,500
— Lease liabilities	11,247	20,962	23,098
<b>Net current assets</b>	<b>401,610</b>	<b>352,026</b>	<b>618,698</b>



	As at 31 March		
	2021	2022	2023
	RMB'000	RMB'000	RMB'000
	(audited)	(audited)	(audited)
		(restated)	
<b>Non-current liabilities:</b>	<b>231,425</b>	<b>168,680</b>	<b>227,553</b>
— Other payables and accruals	—	—	1,275
— Consideration payables	190,837	129,499	5,255
— Interest-bearing bank and other borrowings	—	—	177,144
— Lease liabilities	16,770	17,986	25,324
— Deferred tax liabilities	23,818	21,195	18,555
<b>Total liabilities</b>	<b>399,810</b>	<b>482,847</b>	<b>466,968</b>
<b>Equity attributable to the Shareholders</b>	<b>999,904</b>	<b>1,071,105</b>	<b>1,014,166</b>
<b>Current ratio (Note 1)</b>	<b>3.4</b>	<b>2.1</b>	<b>3.6</b>

*Note:*

1. Being current assets divided by current liabilities.

As at 31 March 2023, total assets of the Group were approximately RMB1,492.8 million, primarily consisted of (a) goodwill of approximately RMB281.6 million mainly arising from the Group's acquisition of the KingNine Group; (b) other intangible assets of approximately RMB180.1 million which mainly represented the brand, customer relationship, technology know-how, patent and software arising from the Group's acquisition of the KingNine Group; (c) accounts receivable of approximately RMB599.3 million; and (d) cash and cash equivalents of approximately RMB163.7 million.

As at 31 March 2023, total liabilities of the Group were approximately RMB467.0 million, primarily consisted of (a) other payables and accruals of approximately RMB106.5 million; (b) interest-bearing bank and other borrowings of approximately RMB245.6 million, including (1) bank borrowings of approximately RMB68.5 million which were interest-bearing at fixed rates ranging from 4.35% to 4.65% and secured by certain accounts receivable of the Group in the amount of RMB250 million and the personal guarantees of RMB160 million provided by a director of a subsidiary of the Company and his spouse; and (2) other borrowings of approximately RMB177.1 million which were due to a related company which is an entity indirectly controlled by the Company's ultimate controlling party and due to mature on 31 March 2025; and (c) lease liabilities of approximately RMB48.4 million.

The Group's financial is generally healthy given its net current assets of approximately RMB618.7 million with a current ratio of approximately 3.6 times as at 31 March 2023. Based on (a) the audited net asset value attributable to the Shareholders of approximately RMB1,014.2 million as at 31 March 2023; (b) 4,776,019,590 Shares in issue as at the Latest Practicable Date; and (c) the exchange rate of RMB1.0 to HK\$1.08, the Group's audited net asset value amounted to approximately HK\$0.229 per Share.

*(iii) Overall comment*

As the Group strengthened its business relationships with leading clients in the fields of internet mobility, finance and securities, e-commerce, and live streaming services and enhanced its marketing efforts to develop clients in other industries, the Group had recorded an increasing trend in revenue during FY2023 and Q1 2023. Given the changes in consumer habits and behaviors brought about by the pandemic, such as people getting used to purchasing groceries online and spending more time on short videos, live streaming and other leisure activities, it is expected that the e-commerce, live streaming services and other innovative business in which the Group's clients are engaged in would continue to improve and thereby drive the revenue growth of the Group.

As disclosed in the 2023 Q1 Report, the full resumption of normalised operation of China's economy and society since the beginning of 2023 have enhanced China's gross domestic product ("GDP") and stimulated the growth of the service industry. According to the National Bureau of Statistics of China (the "NBS"), the value added to GDP by the service sector recorded a year-on-year growth of approximately 2.3% and 6.4% in 2022 and the first half of 2023, respectively. Specifically, the value added to GDP by information transmission sector, software and information technology services sector, leasing and business services sector, financial intermediation and wholesale and retail sector recorded a year-on-year increase of approximately 12.9%, 10.1%, 7.3% and 6.6%, respectively, in the first half of 2023, all of which were even higher than the growth rate of the value added to GDP by the service sector. As the Group's major clients are players from various service industries such as finance and securities, telecommunications operators and Internet, they are expected to recover rapidly with the continued economic recovery and the gradual rise of new endogenous momentum. Especially the pandemic shifted people's behavior focus from traditional offline platforms to online, particularly in the fields of online education, online shopping and media platforms offering short videos and live streaming. It is believed that such change in behavior focus will further promote the booming development of Internet sector companies, which are expected to bring the Group's business more opportunities for rapid growth and will improve the financial results of the Group for the coming years.

## **2. Information on the Offeror and their intention regarding the Group**

Details on the information on the Offeror and its intention regarding the Group are set out in the sections headed “Information on the Offeror and parties acting in concert with the Offeror” and “Intentions of the Offeror regarding the Group” in the “Letter from Opus Securities” in this Composite Document, which are summarised as follows:

### ***(i) Information on the Offeror and parties acting in concert with it***

#### ***The Offeror***

The Offeror is a company incorporated under the Laws of the BVI on 21 November 2019 with limited liability. It is principally engaged in investment holding of approximately 4.44% shareholding interest in the Company and 100% shareholding interest in Omnistar Holdings HK Limited (全星控股有限公司) (which does not have any business activities, operations or major investments). The Offeror is owned as to 40.60% by Mr. Hu and 59.40% by Ms. Liu, respectively, as at the Latest Practicable Date.

#### ***Mr. Hu***

Mr. Hu is the sole director of the Offeror and a director of KingNine and DaLian Kingwisoft. He is also a shareholder holding approximately 32.91% shareholding interest in DaLian Kingwisoft as at the Latest Practicable Date. He joined DaLian Kingwisoft in January 2014 as the legal representative. Prior to joining DaLian Kingwisoft, Mr. Hu served as the manager of operating centre of Shanghai Hewlett-Packard Co., Ltd. (Dalian Branch)\* (上海惠普有限公司(大連分公司)) from July 2004 to September 2008. From September 2008 to November 2013, Mr. Hu served as the China regional sales manager of Neusoft Cloud Technology Co., Ltd.\* (東軟雲科技有限公司) (previously known as Neusoft IT Service Co., Ltd.\* (東軟信息技術服務有限公司)). Mr. Hu is the spouse of Ms. Liu.

In 2019, Mr. Hu was included as a scientific and technological innovation and entrepreneurship talent in the Innovative Talents Promotion Program of the Ministry of Science and Technology of the People’s Republic of China. Mr. Hu was honoured as an Excellent Entrepreneur in Liaoning Province in 2020 and one of the 20th anniversary Outstanding Entrepreneur in Liaoning’s Software Industry. In 2022, Mr. Hu was honoured as a leading talent in China’s digital services and service outsourcing, and a high-level talent (leading talent) in Dalian city. He has more than a decade of marketing and management experience in multinational IT companies. Mr. Hu obtained his bachelor’s degree in Japanese from Liaoning Normal University in 2004.

***Ms. Liu***

Ms. Liu is a shareholder holding approximately 40.83% shareholding interest in DaLian Kingwisoft as at the Latest Practicable Date. She was a director of DaLian Kingwisoft from October 2015 to December 2020. She joined DaLian Kingwisoft in August 2014 as the chief executive. From May 2007 to November 2008, Ms. Liu served as the specialist of Shanghai Hewlett-Packard Co., Ltd. (Dalian Branch)\* (上海惠普有限公司(大連分公司)). She then served as the regional manager of eastern China region of Neusoft Cloud Technology Co., Ltd.\* (東軟雲科技有限公司) (previously known as Neusoft IT Service Co., Ltd.\* (東軟信息技術服務有限公司)) from March 2009 to July 2011 and served as the human resource assistant of BPO Matter Management Department of Yidatec Co., Ltd. (億達資訊技術有限公司) from August 2011 to April 2014. Ms. Liu is the spouse of Mr. Hu.

***Zhongzhi Xinzhuo***

Zhongzhi Xinzhuo is a company incorporated in the BVI with limited liability and an existing Shareholder holding 2,409,823,718 Shares (representing approximately 50.46% shareholding interest in the Company) as at the Latest Practicable Date. It is ultimately beneficially owned by Mr. Xie. Zhongzhi Xinzhuo has the requisite power and capacity to enter into the Voting Rights Entrustment Deed.

***Kang Bang (HK)***

Kang Bang (HK) is a company incorporated in Hong Kong with limited liability and an existing Shareholder holding 455,820,525 Shares (representing approximately 9.54% shareholding interest in the Company) as at the Latest Practicable Date. It is ultimately beneficially owned by Mr. Xie. Kang Bang (HK) has the requisite power and capacity to enter into the Voting Rights Entrustment Deed.

***Ms. Zhou***

Ms. Zhou (the sole shareholder of FUNGHWAA) is holding approximately 9.47% shareholding interest in DaLian Kingwisoft through FUNGHWAA as at the Latest Practicable Date. She has been the president of Dalian Kingwisoft since November 2013. Prior to joining DaLian Kingwisoft, Ms. Zhou served as the assistant to the China regional sales director of Neusoft Cloud Technology Co., Ltd.\* (東軟雲科技有限公司) (previously known as Neusoft IT Service Co., Ltd.\* (東軟資訊技術服務有限公司)) from December 2009 to December 2013. From May 2007 to December 2009, Ms. Zhou served as the head of business department of DaLian First HI-TE.Enterprise H.R. Service Co., Ltd.\* (大連弗斯特高新人才發展管理有限公司).

Mr. Hu, Ms. Liu and Ms. Zhou, among others, have entered into the Contractual Arrangements so as to enable KingNine to maintain control over DaLian Kingwisoft. For further details of the Contractual Arrangements, please refer to the announcement of the Company dated 10 September 2020 and the circular of the Company dated 18 September 2020.

**(ii) *Intention of the Offeror regarding the Group***

**(a) *Business***

As set out in the “Letter from Opus Securities” in this Composite Document, as at the Latest Practicable Date, the Offeror intends to continue the principal business of the Group. The Offeror will, following the completion of the Offer, conduct a detailed review of the business operations and financial position of the Group for the purpose of developing a sustainable business plan or strategy for the Group. Subject to the result of the review and should suitable investment or business opportunities arise, the Offeror may diversify the business of the Group with the objective of broadening its sources of income. As at the Latest Practicable Date, no investment or business opportunities has been identified nor has the Offeror entered into any agreement, arrangements, understandings or negotiation in relation to the injection of any assets or business into the Group. In addition, as at the Latest Practicable Date, neither the Offeror nor the Company has any intention, negotiation, agreement, arrangement and understanding (concluded or otherwise) about the disposal, restructuring or downsizing of any assets or business of the Group.

**(b) *Board composition***

As at the Latest Practicable Date, the Board is made up of two executive Directors, namely Mr. QIU Xiaojian and Mr. LI Xiang, and four independent non-executive Directors, namely Mr. Stephen MARKSCHEID, Mr. ZHANG Weidong, Mr. ZENG Liang and Mr. WANG Li.

As at the Latest Practicable Date, (i) no Director intended to resign from the Board; and (ii) the Offeror intends to nominate Mr. Hu and Ms. Zhou as the executive Directors. The proposed appointments are expected to take effect after the dispatch of this Composite Document.

Save as disclosed above, as at the Latest Practicable Date, the Offeror had not identified any potential candidate to be nominated or appointed as a Director and had not reached any final decision as to who will be nominated as new Directors. Any changes to the members of the Board will be made in compliance with the Takeovers Codes and/or the GEM Listing Rules and further announcement(s) will be made as and when appropriate.

*(c) Maintenance of the Company's listing status*

The Offeror intends the Company to remain listed on the Stock Exchange.

The Stock Exchange has stated that if, at the close of the Offer, less than the minimum prescribed percentage applicable to the Company, being 25% of the issued Shares, are held by the public, or if the Stock Exchange believes that:

- (1) a false market exists or may exist in the trading of the Shares; or
- (2) that there are insufficient Shares in public hands to maintain an orderly market;

it will consider exercising its discretion to suspend dealings in the Shares.

The Offeror intends the Company to remain listed on the Stock Exchange. The sole director of the Offeror and the new Directors to be appointed to the Board will jointly and severally undertake to the Stock Exchange to take appropriate steps to ensure that sufficient public float exists in the Shares.

*(iii) Overall comment*

Taking into account (i) Mr. Hu, Ms. Liu and Ms. Zhou have years of experience in the information technology industry. In particular, they have been working in DaLian Kingwisoft for nearly ten years, which is one of the Group's principal operating subsidiaries and major source of operating revenue after the Group's acquisition of KingNine Group in 2020; (ii) as at the Latest Practicable Date, the Offeror intends to continue the principal business of the Group; (iii) the Offeror intends to nominate Mr. Hu and Ms. Zhou as the executive Directors; and (iv) the Offeror intends the Company to remain listed on the Stock Exchange, we consider Mr. Hu, Ms. Liu and Ms. Zhou will enhance the Group's operation with their years of experience in the industry and understanding of the Group's operating subsidiaries.

### **3. Industry overview and outlook**

As disclosed in the sub-section headed "1. Information and historical financial performance of the Group — (i) financial performance" above, the principal business of the Group is the provision of back-office services, which contributed to approximately 94.6%, 94.2% and 94.2% of the Group's total revenue for FY2022, FY2023 and Q1 2023, respectively. With reference to the 2022 Annual Report, the Group's provision of back-office services primarily includes the provision of customer service solutions such as contact services and call centre-related business process outsourcing ("BPO") services.

Based on the information provided in the section headed "Industry Overview" in the circular of the Company dated 18 September 2020 in relation to the Group's acquisition of the KingNine Group, which made reference to the statistics from China Insights Consultancy, a

professional consulting company established in 2014 which provides industry consulting services, commercial due diligence and strategic consulting services for a variety of industries, total revenue generated from the customer service outsourcing industry in China increased from approximately RMB14.1 billion in 2014 to approximately RMB41.3 billion in 2019, growing at a compound annual growth rate (“CAGR”) of approximately 24.0%. This growth has been driven by the continued economic growth in China, a booming demand from downstream industries, such as financial, telecom, internet-based services, logistics and transportation industries as well as an increasing penetration rate for the customer service outsourcing solutions in the PRC. In addition, the revenue of customer service outsourcing industry is expected to grow at a CAGR of approximately 14.1% during the period from 2019 to 2024 up to as much as approximately RMB80.0 billion by 2024. Such growing trend is mainly attributable to healthy growth in the Chinese economy and the continuous development of downstream industries, along with the trading up of Chinese consumers, all of which create more opportunities for expanding customer service and marketing activities in China.

According to the NBS, China’s GDP has increased from approximately RMB91,928 billion in 2018 to approximately RMB121,021 billion in 2022 with a CAGR of approximately 7.1%, indicating a steady growth in economy in the past 5 years. According to the “World Economic Outlook: A Rocky Recovery” released by International Monetary Fund in April 2023, China’s economy is expected to continue to grow with a projected GDP growth rate of approximately 5.2% and 4.5% in 2023 and 2024, respectively. (Source: <https://www.imf.org/en/Publications/WEO/Issues/2023/04/11/world-economic-outlook-april-2023>). The economic growth would in turn drive the people’s demand and expenditure on back-office services, comprehensive marketing and agency services and data centre services in which the Group provides. According to the NBS, the value added to GDP by the service sector recorded a year-on-year growth of approximately 2.3% and 6.4% in 2022 and the first half of 2023, respectively. Specifically, the value added to GDP by information transmission sector, software and information technology services sector, leasing and business services sector, financial intermediation and wholesale and retail sector recorded a year-on-year increase of approximately 12.9%, 10.1%, 7.3% and 6.6%, respectively, in the first half of 2023. The strong growth momentum in the Chinese economy and major downstream industries of the contact service centre industry, including the financial industry, telecom industry, the Internet-based services industry and the logistics and transportation industry, is expected to stimulate the enterprises’ demand to outsource their customer services in consideration of cost savings and efficiency and in response to increasing competition, ultimately driving the contact service centre industry in the PRC to grow in a fast pace.

Having taking into account the above and in particular that (i) the contact service centre industry in the PRC has experienced growth in the recent years due to the continued economic growth in the PRC as a whole, especially the rapid development of the financial, telecom, internet-based services industries; and (ii) more and more client companies prefer to make use of customer service outsourcing solutions due to their cost-effectiveness and scalability, we consider the growth potential and prospect in the contact service centre industry in the PRC to be positive in the near future.



#### **4. Offer Price comparison**

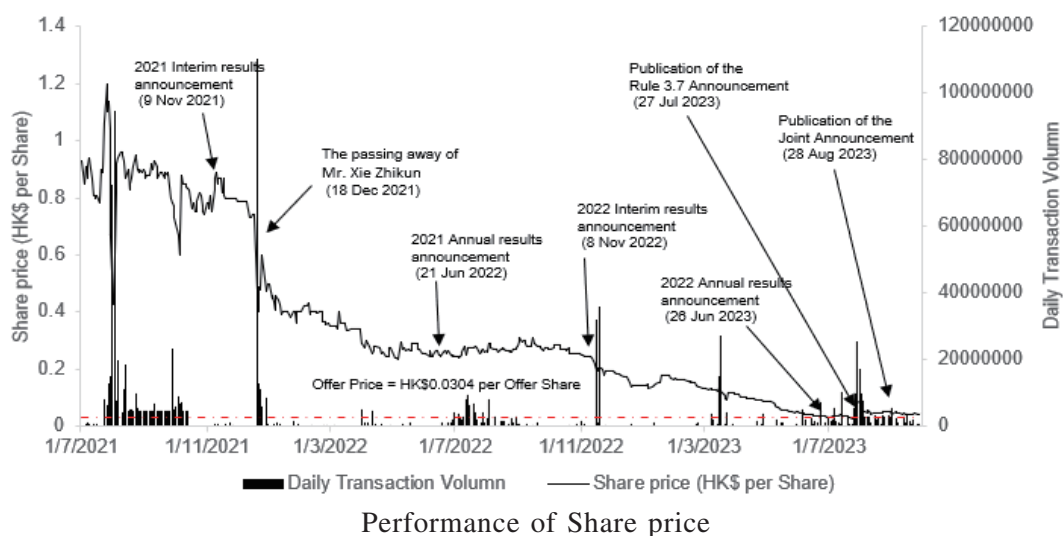
The Offer Price of HK\$0.0304 per Offer Share represents:

- (i) a premium of approximately 1.33% to the closing price of HK\$0.030 per Share as quoted on the Stock Exchange on 25 July 2023, being the Last Trading Day;
- (ii) a discount of approximately 5.00% to the average closing price of approximately HK\$0.032 per Share as quoted on the Stock Exchange for the five consecutive trading days immediately prior to and including the Last Trading Day;
- (iii) a discount of approximately 13.14% to the average closing price of approximately HK\$0.035 per Share as quoted on the Stock Exchange for the 10 consecutive trading days immediately prior to and including the Last Trading Day;
- (iv) a discount of approximately 17.84% to the average closing price of approximately HK\$0.037 per Share as quoted on the Stock Exchange for the 30 consecutive trading days immediately prior to and including the Last Trading Day;
- (v) a discount of approximately 39.20% to the average closing price of approximately HK\$0.050 per Share as quoted on the Stock Exchange for the 60 consecutive trading days immediately prior to and including the Last Trading Day;
- (vi) a discount of approximately 55.94% to the average closing price of approximately HK\$0.069 per Share as quoted on the Stock Exchange for the 90 consecutive trading days immediately prior to and including the Last Trading Day;
- (vii) a discount of approximately 74.88% to the average closing price of approximately HK\$0.121 per Share as quoted on the Stock Exchange for the 180 consecutive trading days immediately prior to and including the Last Trading Day;
- (viii) a discount of approximately 85.24% to the average closing price of approximately HK\$0.206 per Share as quoted on the Stock Exchange for the 360 consecutive trading days immediately prior to and including the Last Trading Day;
- (ix) a discount of approximately 27.62% to the closing price of HK\$0.042 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and
- (x) a discount of approximately 86.72% to the audited net asset value attributable to the Shareholders of approximately HK\$0.229 per Share as at 31 March 2023.

## 5. Trading performance of the Shares

### (i) Historical Share price performance

Set out below are the movement of the closing prices of the Shares as quoted on the Stock Exchange from 1 July 2021 to the Last Trading Day (i.e. 25 July 2023) (the “Review Period”), being approximately two years preceding the Last Trading Day, and up to the Latest Practicable Date. Given the Share price performance has been adversely affected since December 2021 by the passing away of Mr. Xie, the then ultimate beneficial owner of the Company, we consider the Review Period commencing from July 2021 is appropriate and adequate to reflect the Company’s position under the general market sentiment and illustrates the general trend and movement of the daily closing price of the Shares.



Source: Bloomberg

As shown in the chart above, during the Review Period, the Shares price generally closed above the Offer Price (i.e. 502 trading days, accounting for approximately 99.4% of a total of 505 trading days). The closing prices of the Shares during the Review Period ranged from HK\$0.028 on 24 July 2023, representing a discount of approximately 7.89% to the Offer Price, to HK\$1.20 on 26 July 2021, representing a premium of approximately 3,847.37% over the Offer Price.

The movements of the Share price were relatively volatile in July and August 2021 by increasing from HK\$0.93 on 2 July 2021 to the highest of HK\$1.20 on 26 July 2021, and rapidly falling to HK\$0.425 per Share on 2 August 2021. The Share price then rebounded to HK\$0.82 on 4 August 2021 and fluctuated between HK\$0.83 and HK\$0.96 in August and September 2021. Afterwards, the closing price of the Shares generally exhibited a downward trend and recorded an abrupt drop to reached a low of HK\$0.40 on 21 December 2021, following the announcement of the sudden death of Mr. Xie, the then

ultimate beneficial owner of the Company, on 18 December 2021. Subsequently, the Share price continued to fall and dropped to the lowest of HK\$0.028 on 24 July 2023. Since the publication of the Rule 3.7 Announcement on 26 July 2023 in relation to the possible Voting Entrustments, the closing price of the Shares rebounded but soon resumed an overall downward trend up to the Latest Practicable Date. As at the Latest Practicable Date, the Share price closed at HK\$0.042, representing a premium of approximately 38.16% over the Offer Price.

Taking into account that (a) the Offer Price represents a deep discount of approximately 86.72% to the audited net asset value attributable to the Shareholders per Share of approximately HK\$0.229 as at 31 March 2023; (b) the Share price generally closed above the Offer Price (i.e. 502 trading days, accounting for approximately 99.4% of a total of 505 trading days) during the Review Period; (c) the discounts of the Offer Price to the closing prices of the Shares for the various periods in the 360 trading days before the Last Trading Day are generally significant, in the range of approximately 5.00% to 85.24%; and (d) the Share price represents a premium of approximately 38.16% over the Offer Price as at the Latest Practicable Date, we consider that, in comparison of the historical closing prices of the Shares, the Offer Price is not fair and reasonable so far as the Offer Shareholders are concerned.

**(ii) Liquidity of the Shares**

The following table sets out the average daily trading volume of the Shares for each month or period and the percentages of such average daily trading volume to the total number of Shares in issue and held by the public during the period from 1 July 2021 to the Latest Practicable Date.

			Approximate percentage of average daily trading volume to total number of Shares held by the public (Note 1)	Approximate percentage of average daily trading volume to total number of Shares in issue (Note 1)
	Number of trading days (Note 1)	Approximate average daily trading volume		
<b>2021</b>				
July	21	6,154,286	0.1469%	0.5869%
August	22	11,096,364	0.2649%	1.0581%
September	21	5,913,333	0.1412%	0.5639%
October	18	2,471,111	0.0590%	0.2356%
November	22	297,273	0.0071%	0.0283%
December	22	7,143,636	0.1706%	0.6812%

			Approximate percentage of average daily trading volume to total number of Shares held by the public (Note 1)	Approximate percentage of average daily trading volume to total number of Shares in issue (Note 1)	Approximate percentage of average daily trading volume to total number of Shares held by the public (Note 1)
<b>2022</b>					
January	21	375,238	0.0090%		0.0358%
February	17	145,882	0.0035%		0.0139%
March	23	55,652	0.0013%		0.0053%
April	18	856,667	0.0205%		0.0817%
May	20	200,500	0.0048%		0.0191%
June	21	791,905	0.0189%		0.0755%
July	20	3,747,000	0.0895%		0.3573%
August	23	1,573,043	0.0329%		0.0961%
September	21	251,429	0.0053%		0.0154%
October	20	150,000	0.0031%		0.0092%
November	22	3,464,545	0.0725%		0.2117%
December	20	136,000	0.0028%		0.0083%
<b>2023</b>					
January	18	93,333	0.0020%		0.0057%
February	20	149,000	0.0031%		0.0091%
March	22	3,833,636	0.0803%		0.2257%
April	15	492,000	0.0103%		0.0290%
May	21	320,952	0.0067%		0.0189%
June	21	1,234,286	0.0258%		0.0727%
July	19	4,725,263	0.0989%		0.2782%
August	23	2,824,348	0.0591%		0.1663%
From 1 September to the Latest Practicable Date	19	1,168,421	0.0245%		0.0688%

Source: Bloomberg and the website of the Stock Exchange

Notes:

1. Number of trading days of the Shares represents number of trading days during the month or period which excludes any trading day on which trading of the Shares on the Stock Exchange was suspended for the whole trading day (if applicable).

2. Based on the total number of the Shares in issue at the end of each month or period as disclosed in the monthly returns of the Company.
3. Based on the number of Shares held by public Shareholders as calculated by deducting the Shares held by the Offeror and the parties acting in concert with it from the total number of the Shares in issue at the end of each month or period.

As illustrated in the table above, the trading of the Shares was generally inactive since 1 July 2021. The average daily trading volume for the respective month or period during the above period ranged from approximately 55,652 Shares in March 2022 to approximately 11,096,364 Shares in August 2021, representing approximately 0.0013% to 0.2649% of the total number of the Shares in issue and approximately 0.0053% to 1.0581% of the total number of the Shares held by the public, respectively.

Given the thin trading liquidity of the Shares in general as illustrated above, if the Offer Shareholders intend to dispose of a significant shareholding in the Company in the market within a short timeframe, it is possible that a downward pressure would be exerted on the market price of the Shares. In such circumstance, the Offer may represent an alternative exit for the Offer Shareholders with significant shareholding in the Company to realise their investments in the Company at the Offer Price. However, should the market price of the Shares exceed the Offer Price during the Offer Period and the sale proceeds (net of transaction costs) exceed the net proceeds receivable under the Offer, the Offer Shareholders may consider selling their Shares in the open market if they would like to divest the securities of the Company in the short-run.

## **6. Comparable analysis**

As disclosed in the sub-section headed “1. Information and historical financial performance of the Group — (i) financial performance” above, the principal business of the Group is the provision of back-office services, which contributed to approximately 94.6%, 94.2% and 94.2% of the Group’s total revenue for FY2022, FY2023 and Q1 2023, respectively. With reference to the 2022 Annual Report, the Group’s provision of back-office services primarily includes the provision of customer service solutions such as contact services and call centre-related BPO services.

Price-to-earnings (“**P/E(s)**”), price-to-book (“**P/B(s)**”) and price-to-sale (“**P/S(s)**”) multiples are the three most commonly used benchmarks in valuing a company. P/E is usually adopted for judging valuations for companies which are profit making. On the other hand, P/B is typically applied for valuing companies which hold relatively liquid assets on their balance sheets and their book values approximate their fair market values such as real estate companies, banks and money lenders whereas P/S is appropriate for valuing companies which have volatile earnings or loss but relatively stable revenue such as retailers offering general merchandise.

Although the Group recorded net loss of approximately RMB236.0 million for FY2023, it was primarily attributable to the recognition of a non-cash impairment loss on goodwill which was non-recurring and not business-related in nature. Excluding the impairment loss on goodwill, the Group would record an adjusted net profit of approximately RMB113.4 million for FY2023.

Given that the Group was profit making after adjusting the non-cash impairment loss on goodwill for FY2023, we consider the valuation methodology using P/E is appropriate in valuing the Group. However, the Comparable Company (as defined below) was loss making. Despite P/B is not typically applied for valuing companies in the industry in which the Group is engaged in and having considered that the Group recorded net assets position as at 31 March 2023, we also used P/B as an additional reference for Offer Shareholders when considering the Offer. Given the limitation of the P/E and P/B methodologies as stated above, we have also adopted P/S for valuing the Offer. Based on (a) the Offer Price of HK\$0.0304 per Offer Share; (b) 4,776,019,590 Shares in issue as at the Latest Practicable Date; and (c) revenue of approximately RMB888.6 million for FY2023, the adjusted net profit of approximately RMB113.4 million for FY2023 and the net assets value of approximately RMB1,014.2 million as at 31 March 2023, the P/E, the P/B and the P/S implied by the Offer Price are approximately 1.1 times (the “**Implied P/E**”), 0.1 time (the “**Implied P/B**”) and 0.1 times (the “**Implied P/S**”), respectively.

In evaluating the fairness and reasonableness of the Offer Price, we have, based on our search on Bloomberg and the website of the Stock Exchange, identified an exhaustive list of company (the “**Comparable Company**”) which (a) is principally engaged in provision of customer service solutions including contact services and centre-related BPO services; and (b) has its shares listed and traded on the Stock Exchange. Based on the aforesaid criteria, we have identified one Comparable Company, which represents an exhaustive list. Despite of having only one Comparable Company, we consider the Comparable Company to be highly relevant for comparison purpose as the Comparable Company (i) is engaged in business similar to the Group; (ii) has similar market capitalisation as the Group; and (iii) is listed on the Stock Exchange and hence share similar market sentiment of the Company.

The following table set out the details of the Comparable Company:

Company name (stock code)	Principal activities	Market capitalisation as at the Last Trading Day (HK\$ million)	P/E (Note 1) (times)	P/B (Note 1) (times)	P/S (Note 1) (times)
ETS Group Limited (8031.HK)	Principally engaged in the provision of comprehensive multi-media contact services and contact center systems	106.4	N/A	1.2	1.3
	<b>The Offer</b>	145.2	1.1	0.1	0.1
		implied by the Offer price	(Note 2) (times)	(Note 2) (times)	(Note 2) (times)

*Source: Bloomberg*

*Notes:*

1. Being the P/E, P/B and P/S of the Comparable Company as at the Last Trading Day as extracted from Bloomberg. The P/E of the Comparable Company has been adjusted for non-recurring and not business-related items for comparison purpose; and
2. Being the Implied P/E, the Implied P/B and the Implied P/S.

As shown in the table above, the Comparable Company recorded net loss in its latest financial year while the Implied P/E of approximately 1.1 times is hence could not be used for comparison purpose.

On the other hand, the P/B of the Comparable Company was approximately 1.2 times as at the Last Trading Day. The Implied P/B of approximately 0.1 time is significantly lower than the P/B of the Comparable Company.

The P/S of the Comparable Company was approximately 1.3 times as at the Last Trading Day. The Implied P/S of approximately 0.1 time is also significantly lower than the P/S of the Comparable Company.

In view of both of the Implied P/B and the Implied P/S are significantly lower than those of the Comparable Company, we consider that the Offer Price is not fair and reasonable so far as the Offer Shareholders are concerned.



## DISCUSSION AND ANALYSIS

We consider that the terms of the Offer, including the Offer Price of HK\$0.0304 per Offer Share, are not fair and reasonable so far as the Offer Shareholders are concerned after taking into account the above principal factors and reasons as a whole, in particular:

- (i) as the Group strengthened its business relationships with leading clients in the fields of internet mobility, finance and securities, e-commerce, and live streaming services and enhanced its marketing efforts to develop clients in other industries, the Group had recorded an increasing trend in revenue during FY2023 and Q1 2023. Given the changes in consumer habits and behaviors brought about by the pandemic, such as people getting used to purchasing groceries online and spending more time on short videos, live streaming and other leisure activities, it is expected that the e-commerce, live streaming services and other innovative business in which the Group's clients are engaged would continue to improve and thereby drive the revenue growth of the Group. As disclosed in the 2023 Q1 Report, the full resumption of normalised operation of China's economy and society since the beginning of 2023 have enhanced China's GDP, which drives people's demand and expenditure on various services and stimulated the growth of the service industry. As the Group's major clients are players from various service industries such as finance and securities, telecommunications operators and Internet, they are expected to recover rapidly with the continued economic recovery and the gradual rise of new endogenous momentum. Especially the pandemic makes people widely use online education, online shopping and watch short videos and live streaming and it will further promote the booming development of Internet sector companies, which are expected to bring the Group's business more opportunities for rapid growth and will improve the financial results of the Group for the coming years;
- (ii) given that (a) the contact service centre industry in the PRC has experienced growth in the recent years due to the continued economic growth in the PRC as a whole, especially the rapid development of the financial, telecom, internet-based services industries; and (b) more and more client companies prefer to make use of customer service outsourcing solutions due to their cost-effectiveness and scalability, we consider the growth potential and prospect in the contact service centre industry in the PRC to be positive in the near future;
- (iii) the Share price generally closed above the Offer Price (i.e. 502 trading days, accounting for approximately 99.4% of a total of 505 trading days) during the Review Period;
- (iv) the Offer Price represents a deep discount of approximately 86.72% to the audited net asset value per Share of approximately HK\$0.229 as at 31 March 2023;

- (v) the discounts of the Offer Price to the closing prices of the Shares for the various periods in the 360 trading days before the Last Trading Day are generally significant, in the range of approximately 5.00% to 85.24%;
- (vi) since the publication of the Rule 3.7 Announcement and up to the Latest Practicable Date, the closing price of the Shares rebounded but soon resumed an overall downward trend up to the Latest Practicable Date, which closed at HK\$0.042 per Share. Nonetheless, trading in the Shares was generally inactive during the Review Period. Regarding this, please refer to our recommendation below with respect to acceptance of the Offer and also the disposal of the Shares in the open market; and
- (vii) both of the Implied P/B and the Implied P/S are significantly lower than those of the Comparable Company.

## OPINION AND RECOMMENDATION

Based on the above principal factors and reasons, we consider the Offer to be not fair and reasonable so far as the Offer Shareholders are concerned. Accordingly, we recommend the Independent Board Committee to recommend, and we ourselves recommend, the Offer Shareholders to not accept the Offer.

For those Offer Shareholders who intend to accept the Offer, we would remind them to closely monitor the market price and liquidity of the Shares during the Offer Period, and having regard to their own circumstances, consider selling the Shares in the open market, instead of accepting the Offer, if the net proceeds from the ultimate sale of such Shares would be higher than that receivable under the Offer.

As such, for those Offer Shareholders who intend to dispose of large blocks of Shares in the open market, we would also remind them of the possible difficulty in disposing of their Shares in the open market without creating downward pressure on the market prices of the Shares as a result of the thin trading in the Shares.

Yours faithfully,  
For and on behalf of  
**Rainbow Capital (HK) Limited**



**Larry Choi**  
*Managing Director*

*Mr. Larry Choi is a licensed person and a responsible officer of Rainbow Capital (HK) Limited registered with the Securities and Futures Commission to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO. He has over 10 years of experience in the corporate finance industry.*