

SOMERLEY CAPITAL LIMITED

20/F., China Building, 29 Queen's Road Central, Hong Kong

Telephone: 2869 9090 Fax: 2526 2032 E-Mail: somerley@somerley.com.hk

31 August 2020

To: the Independent Board Committee

Dear Sirs,

**PROPOSAL FOR THE PRIVATISATION OF
CAPXON INTERNATIONAL ELECTRONIC COMPANY LIMITED
BY THE OFFEROR
BY WAY OF A SCHEME OF ARRANGEMENT
(UNDER SECTION 86 OF THE COMPANIES LAW) AND
PROPOSED WITHDRAWAL OF LISTING OF
CAPXON INTERNATIONAL ELECTRONIC COMPANY LIMITED**

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee in connection with the Proposal and the Scheme. Details of the Proposal and the Scheme are set out in the Scheme Document dated 31 August 2020, of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Scheme Document unless the context otherwise requires.

On 5 June 2020, the Company and the Offeror jointly announced that on 29 May 2020, the Offeror requested the Board to put forward a proposal to the Scheme Shareholders for the privatisation of the Company by way of a scheme of arrangement under Section 86 of the Companies Law involving the cancellation of the Scheme Shares and, in consideration thereof, the payment to the Scheme Shareholders of the Cancellation Price of HK\$0.60 in cash for each Scheme Share so cancelled, and the withdrawal of the listing of the Shares on the Stock Exchange.

The Independent Board Committee comprising the following independent non-executive Directors, namely Mr. Hsieh King-Hu, Miles, Mr. Lu Hong Te and Mr. Tung Chin Chuan, has been established to make a recommendation to the Independent Shareholders as to (i) whether the terms of the Proposal and the Scheme are, or are not, fair and reasonable; and (ii) whether to vote in favour of the relevant resolution(s) to be proposed at the Court Meeting and the EGM to approve and implement the Proposal. As disclosed in the letter from the Board in the Scheme Document, although Ms. Liu in her capacity acts as a non-executive Director, she owned approximately 14.81% and approximately 2.49% of the Offeror and Hung Yu, respectively, and was directly interested in approximately 0.82% of the issued share capital of the Company as at the Latest Practicable Date. Ms. Liu is therefore regarded as being interested in the Proposal and will not form part of the Independent Board Committee. The Independent Board Committee has approved our appointment as the Independent Financial Adviser to advise the Independent Board Committee in these regards.



We are not associated with the Company, the Offeror, or any party acting, or presumed to be acting, in concert with any of them and we did not act as an independent financial adviser to other transactions of the Company in the last two years. Accordingly, we are considered eligible to give independent advice on the Proposal and the Scheme. Apart from normal professional fees paid or payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company, the Offeror or any party acting, or presumed to be acting, in concert with any of them.

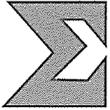
In formulating our opinion, we have relied on the information and facts supplied, and the opinions expressed, by the Directors and management of the Group, which we have assumed to be true, accurate and complete. We have reviewed, among other things, the annual reports of the Company for each of the two years ended 31 December 2018 (the “**2018 Annual Report**”) and 31 December 2019 (the “**2019 Annual Report**”), the interim results announcement of the Company for the six months ended 30 June 2020 published on 25 August 2020 (the “**2020 Interim Results Announcement**”), the property valuation report prepared by Vincorn Consulting and Appraisal Limited (the “**Valuer**”), the trading performance of the Shares on the Stock Exchange up to the Latest Practicable Date, and information set out in the Scheme Document. We have sought and received confirmation from the Directors that no material facts have been omitted from the information supplied and opinions expressed to us. We consider that the information we have received is sufficient for us to reach our opinion and give our advice and recommendation set out in this letter. We have no reason to believe that any material information has been omitted or withheld, or to doubt the truth or accuracy of the information provided. We have, however, not conducted any independent investigation into the business and affairs of the Group, the Offeror or any of their respective associates or any party acting, or presumed to be acting, in concert with any of them, nor have we carried out any independent verification of the information supplied. We have also assumed that all representations contained or referred to in the Scheme Document were true at the time they were made and at the date of the Scheme Document and will continue to be true up to the respective time of the Court Meeting and the EGM, and Independent Shareholders will be informed of any material change as soon as possible.

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

PRINCIPAL TERMS OF THE PROPOSAL AND THE SCHEME

The Proposal and the Scheme and the Cancellation Price

On 29 May 2020, the Offeror requested the Board to put forward a proposal to the Scheme Shareholders for the privatisation of the Company by way of a scheme of arrangement under Section 86 of the Companies Law involving the cancellation of the Scheme Shares and, in consideration therefor, the payment by the Offeror to the Scheme Shareholders of the Cancellation Price in cash for each Scheme Share so cancelled, and the withdrawal of the listing of the Shares on the Stock Exchange.



If the Proposal is approved and implemented, under the Scheme, the share capital of the Company will, on the Effective Date, be reduced by cancelling and extinguishing the Scheme Shares. Simultaneously with such reduction, the share capital of the Company will be increased to its former amount by the issuance at par to the Offeror, credited as fully paid, of the aggregate number of Shares as is equal to the number of Scheme Shares cancelled. The reserve created in the Company's books of account as a result of the capital reduction will be applied in paying up in full at par the new Shares so issued, credited as fully paid, to the Offeror.

Cancellation Price

Under the Scheme, the Scheme Shareholders will receive from the Offeror the Cancellation Price of HK\$0.60 in cash for every Scheme Share as consideration for the cancellation of the Scheme Shares held as at the Effective Date.

As disclosed in the Explanatory Statement, as at the Latest Practicable Date, no dividends or distribution declared by the Company was outstanding. The Company does not intend to declare any dividends or distribution during the offer period.

As disclosed in the Explanatory Statement, **the Cancellation Price will not be increased, and the Offeror does not reserve the right to do so.**

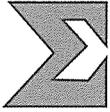
According to the Explanatory Statement, the Cancellation Price has been determined on a commercial basis after taking into account, among others, the prices of the Shares traded on the Stock Exchange, the trading multiples of comparable companies listed on the Stock Exchange and with reference to other privatisation transactions in Hong Kong in recent years.

During the Relevant Period, the highest closing price of the Shares as quoted on the Stock Exchange was HK\$0.580 per Share on 9, 12, 15, 17 and 24 June 2020 and the lowest closing price of the Shares as quoted on the Stock Exchange was HK\$0.250 per Share on 19 March 2020.

Total consideration and financial resources

On the basis of the Cancellation Price of HK\$0.60 per Scheme Share and 250,065,502 Scheme Shares being in issue as at the Latest Practicable Date and assuming that no further Shares will be issued before the Scheme Record Date, the Scheme Shares are in aggregate valued at approximately HK\$150,039,301.2, which represents the amount of cash required for the Proposal.

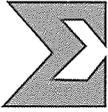
The Offeror's payment obligations to the Scheme Shareholders in respect of the Cancellation Price in cash pursuant to and in accordance with the Scheme shall be fulfilled by the Offeror. As disclosed in the Explanatory Statement, the Offeror intends to finance the cash required for the cancellation of the Scheme Shares using the proceeds of a facility of up to HK\$180 million granted by CTBC Bank Co., Ltd., a third party independent of the Offeror. Elstone, the financial adviser to the Offeror, is satisfied that sufficient financial resources are available to the Offeror for discharging its obligations in respect of the full implementation of the Scheme in accordance with its terms.



Conditions of the Proposal and the Scheme

The implementation of the Proposal is, and the Scheme will become effective and binding on the Company and all Shareholders subject to the fulfilment or waiver (as applicable) of the following:

- (1) the approval of the Scheme (by way of poll) by a majority in number of the Independent Shareholders representing not less than three-fourths in value of the Scheme Shares held by the Independent Shareholders present and voting either in person or by proxy at the Court Meeting;
- (2)
 - (a) the Scheme is approved (by way of poll) by the Independent Shareholders holding at least 75% of the votes attaching to the Scheme Shares held by Independent Shareholders that are voted either in person or by proxy at the Court Meeting; and
 - (b) the number of votes cast (by way of poll) by Independent Shareholders present and voting either in person or by proxy at the Court Meeting against the resolution to approve the Scheme at the Court Meeting is not more than 10% of the votes attaching to all Scheme Shares held by all Independent Shareholders;
- (3)
 - (a) the passing of a special resolution by a majority of not less than three-fourths of the votes cast by the Shareholders present and voting in person or by proxy at the EGM to approve and give effect to the reduction of the number of issued Shares in the share capital of the Company by cancelling and extinguishing the Scheme Shares; and (b) the passing of an ordinary resolution by a simple majority of the votes cast by the Shareholders present and voting in person or by proxy at the EGM to, simultaneously with the cancellation and extinguishment of the Scheme Shares referred to in (a) above, increase in the issued share capital of the Company to the amount prior to the cancellation and extinguishment of the Scheme Shares by an application of the reserve created as a result of the aforesaid cancellation and extinguishment of the Scheme Shares to pay up in full at par such number of new Shares as is equal to the number of Scheme Shares cancelled and extinguished as a result of the Scheme, credited as fully paid, to be allotted and issued to the Offeror;
- (4) the sanction of the Scheme (with or without modifications) by the Grand Court and its confirmation of the reduction of the number of issued Shares in the share capital of the Company, and the delivery to the Registrar of Companies in the Cayman Islands of a copy of the order of the Grand Court for registration;
- (5) compliance, to the extent necessary, with the procedural requirements and conditions, if any, under Sections 15 and 16 of the Companies Law in relation to the reduction of the number of issued Shares in the issued share capital of the Company;
- (6) all necessary Authorisations in connection with the Proposal and the Scheme having been obtained from, given by or made with or by (as the case may be) the Relevant Authorities and remaining in full force and effect without modification, in the Cayman Islands, Hong Kong, Taiwan and any other relevant jurisdictions;



- (7) all necessary consents (including consents from the relevant lenders) in connection with the Proposal and the withdrawal of listing of Shares from the Stock Exchange which may be required under any existing contractual obligations of the Company being obtained and remained in effect;
- (8) no government, governmental, quasi-governmental, statutory or regulatory body, court or agency in any jurisdiction having taken or instituted any action, proceeding or suit (or enacted, made or proposed, and there not continuing to be outstanding, any statute, regulation, demand or order) that would make the Proposal or the Scheme or its implementation in accordance with its terms void, unenforceable, illegal or impracticable (or which would impose any material and adverse conditions or obligations with respect to the Proposal or the Scheme or its implementation in accordance with its terms), other than such actions, proceedings or suits as would not have a material adverse effect on the legal ability of the Offeror to proceed with the Proposal or the Scheme;
- (9) since the Announcement Date, there having been no adverse change in the business, assets, financial or trading positions, profits or prospects of any member of the Group (to an extent which is material in the context of the Company and its subsidiaries taken as a whole or in the context of the Proposal); and
- (10) save as publicly announced prior to the Announcement Date, there not having been any instituted or remaining outstanding litigation, arbitration proceedings, prosecution or other legal proceedings to which any member of the Group is a party (whether as plaintiff, defendant or otherwise) and no such proceedings will be threatened in writing against any such member (and no investigation by any government or quasi-governmental, supranational, regulatory or investigative body or court against or in respect of any such member or the business carried on by any such member will be threatened in writing, announced, instituted or remain outstanding by, against or in respect of any such member), in each case which is material and adverse in the context of the Group taken as a whole or in the context of the Proposal.

Approval from MOEAIC on the Proposal required

The Company is incorporated in the Cayman Islands, and the operations of the Group are mainly in the PRC. The Offeror Shareholders and their concert parties are Taiwan citizens, and increase of the interests of the Offeror in the Company is considered as overseas and mainland China investments by Taiwan citizens.

The Offeror Shareholders have, through their TW Agent, made enquiries with the Investment Commission of MOEAIC and obtained a reply therefrom that an approval from MOEAIC is required in respect of the Proposal. The obtaining of the approval from MOEAIC will be part of Condition (6) as stated above.

As disclosed in the Explanatory Statement, the Offeror Shareholders have applied for and obtained the approval from MOEAIC on the Proposal based on the post-Subscription shareholding of the Offeror as at the Latest Practicable Date. In relation to Condition (6), apart from the aforementioned, the Offeror is not aware of any other Authorisations which is necessary for the



Proposal. In respect of the Conditions (7) to (10) the Offeror is not currently aware of any Authorisations or consents which are required, and any other matter that would constitute a breach to Conditions (7) to (10).

The Offeror reserves the right to waive Conditions (7) to (10) either in whole or in part, either generally or in respect of any particular matter. Conditions (1), (2), (3), (4), (5) and (6) cannot be waived in any event. Pursuant to Note 2 to Rule 30.1 of the Takeovers Code, the Offeror may only invoke any or all of the Conditions as a basis for not proceeding with the Scheme if the circumstances which give rise to a right to invoke any such Condition are of a material significance to the Offeror in the context of the Proposal. All of the Conditions will have to be fulfilled or waived, as applicable, on or before the Long Stop Date (or such later date as the Offeror and the Company may agree or, to the extent applicable, as the Grand Court may direct and in all cases, as permitted by the Executive), failing which the Proposal and the Scheme will lapse.

The Company has no right to waive any of the Conditions.

As disclosed in the Explanatory Statement, the Proposal has been approved by the Offeror Directors, but is not required to be approved by the shareholders of the Offeror.

As further disclosed in the Explanatory Statement, assuming that the Conditions are satisfied or validly waived (as applicable), it is expected that the Scheme will become effective on or around Wednesday, 21 October 2020 (Cayman Islands time).

Scheme of Arrangement under Section 86 of the Companies Law and the Court Meeting

Pursuant to Section 86 of the Companies Law, where an arrangement is proposed between a company and its members or any class of them, the Grand Court may, on the application of the company or any member of the company, order a meeting of the members of the company or class of members, as the case may be, to be summoned in such manner as the Grand Court directs.

It is expressly provided in Section 86 of the Companies Law that if a majority in number representing 75% in value of the members or class of members, as the case may be, present and voting either in person or by proxy at the meeting held as directed by the Grand Court as aforesaid, agree to any arrangement, the arrangement shall, if sanctioned by the Grand Court, be binding on all members or class of members, as the case may be, and also on the company. For the avoidance of doubt, the Grand Court will be ordering a meeting of a class of members being the Scheme Shareholders.

Upon the Scheme becoming effective, it will be binding on the Company and all Scheme Shareholders, regardless of how they voted (or whether they voted) at the Court Meeting and the EGM.

Shareholding structure of the Company and effect of the Proposal and the Scheme

As at the Latest Practicable Date, the authorised share capital of the Company was HK\$150,000,000 divided into 1,500,000,000 Shares, and the Company had 844,559,841 Shares in issue. As at the Latest Practicable Date, the Company has no other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) other than the 844,559,841 Shares in issue. As at the Latest Practicable Date, the Scheme Shares, comprising 250,065,502 Shares, represent approximately 29.61% of the issued share capital of the Company.



As at the Latest Practicable Date, the Offeror held 374,585,006 Shares (representing approximately 44.35% of the issued share capital of the Company); the Offeror Concert Parties held in aggregate 219,909,333 Shares (representing approximately 26.04% of the issued share capital of the Company); and the Offeror and the Offeror Concert Parties held in aggregate 594,494,339 Shares (representing approximately 70.39% of the issued share capital of the Company). These Shares held by the Offeror and the Offeror Concert Parties will not form part of the Scheme Shares and will not be voted on the Scheme at the Court Meeting.

The Offeror is the controlling shareholder of the Company, and will, under the Scheme, cancel all Scheme Shares in the Company upon the Scheme becoming effective. Simultaneously with the cancellation of the Scheme Shares upon the Scheme becoming effective, by the application of reserve created as a result of the cancellation of the Scheme Shares to increase the issued share capital of the Company to the amount prior to the cancellation and extinguishment of the Scheme Shares by the allotment and issue to the Offeror of such number of new Shares (credited as fully paid) as is equal to the number of Scheme Shares cancelled, the Offeror's shareholding in the Company will increase from approximately 44.35% as at the Latest Practicable Date to approximately 73.96% upon the Scheme becoming effective.

Following the Effective Date and the withdrawal of listing of the Shares on the Stock Exchange, the Offeror and the Offeror Concert Parties will hold the entire issued share capital of the Company, on the assumption that there is no other change in shareholding in the Company before completion of the Proposal.

Warnings:

Shareholders and potential investors should be aware that the implementation of the Proposal and the Scheme are subject to conditions being fulfilled or waived, as applicable, and thus the Proposal may or may not be implemented, and the Scheme may or may not become effective. Shareholders and potential investors should therefore exercise caution when dealing in the securities of the Company. Persons who are in doubt as to the action they should take should consult their stockbroker, bank manager, solicitor or other professional advisers.

PRINCIPAL FACTORS AND REASONS CONSIDERED

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

I. Information of the Group

1.1. Background information of the Group

The Company is a limited liability company incorporated in the Cayman Islands. The Shares have been listed on the Stock Exchange since 7 May 2007. The Group engages in two operating segments, namely the manufacture and sale of capacitors and the manufacture and sale of aluminum foils under its own brand name.



1.2. Financial information of the Group

(i) Financial performance

Set out below is a summary of the Group's consolidated financial performance for the three years ended 31 December 2017, 2018 and 2019 ("FY2017", "FY2018" and "FY2019" respectively), and for the six months ended 30 June 2019 and 2020 ("1H2019" and "1H2020" respectively) (collectively, the "Period") as extracted from the 2018 Annual Report, the 2019 Annual Report and the 2020 Interim Results Announcement:

	For the six months ended 30 June		For the financial year ended 31 December		
	2020 RMB'000	2019 RMB'000	2019 RMB'000	2018 RMB'000	2017 RMB'000
Revenue					
Capacitors	611,340	554,647	1,288,397	1,172,606	1,045,836
Aluminum foil	29,785	42,304	79,464	29,721	23,268
	<u>641,125</u>	<u>596,951</u>	<u>1,367,861</u>	<u>1,202,327</u>	<u>1,069,104</u>
Cost of sales	(465,951)	(431,257)	(986,075)	(861,459)	(798,445)
Gross profit	175,174	165,694	381,786	340,868	270,659
Distribution and selling costs	(42,444)	(34,680)	(78,740)	(80,486)	(70,900)
Administrative expenses	(52,053)	(49,007)	(120,507)	(102,551)	(85,663)
Other income and expenses (net)	(20,431)	(18,945)	(28,267)	(23,265)	(34,397)
Impairment losses under expected credit loss model, net of reversal	(11,977)	(3,470)	(12,304)	-	-
Impairment loss on trade and other receivables, net of reversal	-	-	-	(4,802)	(2,614)
Impairment loss on deposits paid for acquisition of property, plant and equipment	-	-	-	-	(5,289)
Other gains/losses	(892)	(5,175)	(2,272)	(1,203)	(38,156)
Interest on provision for damages	(4,734)	(4,477)	(9,224)	(8,756)	(8,834)
Finance costs	(5,418)	(4,888)	(9,220)	(7,205)	(1,703)
Profit before tax	37,225	45,052	121,252	112,600	23,103
Income tax expense	(9,585)	(12,489)	(28,705)	(48,955)	(24,915)
Profit/(loss) for the year	<u>27,640</u>	<u>32,563</u>	<u>92,547</u>	<u>63,645</u>	<u>(1,812)</u>
Profit/(loss) attributable to:					
Owners of the Company	27,824	32,615	92,731	64,761	(2,040)
Non-controlling interests	(184)	(52)	(184)	(1,116)	228
	<u>27,640</u>	<u>32,563</u>	<u>92,547</u>	<u>63,645</u>	<u>(1,812)</u>



Revenue

Total revenue of the Group had shown a gradual upward trend during the three financial years ended 31 December 2019, increasing by approximately 12.5% from approximately RMB1,069.1 million in FY2017 to approximately RMB1,202.3 million in FY2018 and by another 13.8% to approximately RMB1,367.9 million in FY2019. The largest contributor to the Group's total revenue is the manufacturing and sales of capacitors, which represented over 90% of total revenue for each of the three financial years ended 31 December 2019.

Revenue generated from the capacitor segment increased by approximately 12.1% in FY2018 mainly due to the launch and sale of the Group's newly developed solid-state capacitors, high voltage capacitors and charging piles. Revenue from the Group's aluminum foil segment increased by approximately 27.7% in FY2018 mainly because of the increase in demand and expansion in production. Revenue generated from the manufacture and sale of capacitors increased by approximately 9.9% in FY2019 mainly due to increase of sales to new customers. Sales of aluminum foils on the other hand increased by approximately 167.7% in FY2019 mainly because of the benefits derived from the Group's upgrading of technologies concerning production line as well as the function and quality of products which strengthened customers' confidence in use and thus improving the sales of aluminum foils.

Total revenue of the Group for 1H2020 had also shown an increase by approximately 7.4% from approximately RMB597.0 million in 1H2019 to approximately RMB641.1 million in 1H2020, being consistent with the growth trend as demonstrated by the prior three financial years. Revenue generated from the capacitor segment increased by approximately 10.2% from approximately RMB554.6 million in 1H2019 to approximately RMB611.3 million in 1H2020, mainly attributable to the increase in demand for local made capacitors by some domestic customers as an alternative to foreign sources due to logistic complications as a result of COVID-19 outbreak. However, revenue from the Group's aluminum foil segment dropped by approximately 29.6% from approximately RMB42.3 million in 1H2019 to approximately RMB29.8 million in 1H2020, as a result of the decrease in purchase orders due to the outbreak of COVID-19 pandemic in China.

Gross profit

Gross profit increased by approximately 25.9% in FY2018 from approximately RMB270.7 million in FY2017 to approximately RMB340.9 million in FY2018 mainly in line with the improvements in revenue as well as lower costs associated with the manufacturing process as a result of technology advancement. The Group's gross profit for FY2019 reported a further increase of approximately 12.0% and this was mainly in line with the improvements in total revenue for the year.



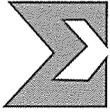
Gross profit increased by approximately 5.7% from approximately RMB165.7 million in 1H2019 to approximately RMB175.2 million in 1H2020 which was in line with the overall improvements in total revenue.

Net profit attributable to owners of the Company

The Group reported a net profit attributable to owners of the Company of approximately RMB64.8 million in FY2018 as compared to a net loss attributable to owners of the Company of approximately RMB2.0 million in FY2017 mainly as a result of (i) the absence in FY2018 of an one-off impairment loss of approximately RMB5.3 million recognised on deposits paid for acquisition of property, plant and equipment in FY2017; (ii) a drop in other losses recognised in FY2018 by approximately RMB37.0 million compared to FY2017 as a result of an one-off loss of approximately RMB18.0 million recognised in FY2017 relating to the termination of a co-operation agreement and a smaller net foreign exchange loss recognised in FY2018 as compared to that of FY2017; and (iii) the smaller other net expenses recognised in FY2018 as a result of the drop in depreciation costs relating to property, plant and equipment from approximately RMB10.3 million recognised in FY2017 to approximately RMB1.7 million recognised for FY2018. Such decline in depreciation costs was due to the cessation of a subsidiary of the Company during FY2017.

Net profit attributable to owners of the Company increased from approximately RMB64.8 million in FY2018 to approximately RMB92.7 million in FY2019 mainly as a result of increase in revenue as described above as well as lower distribution and selling costs incurred during the year partly off-set by the increase in administrative expenses and the recognition of an impairment loss on trade and other receivables (net of reversal).

The Group reported a lower net profit attributable to owners of the Company of approximately RMB27.8 million in 1H2020 as compared to the net profit attributable to owners of the Company of approximately RMB32.6 million in 1H2019 mainly as a result of (i) the increase in of distribution and selling costs by approximately RMB7.8 million in 1H2020 due to increases in staff costs and commission fee paid; (ii) increase in administrative expenses of approximately RMB3.0 million in 1H2020 mainly due to increases in costs relating to counter measures against COVID-19 such as isolation of employees and transportation to minimize disruptions to the Group's operation; and (iii) a growth of impairment losses under expected credit loss model by approximately RMB8.5 million in 1H2020 mainly relating to deposits paid that have become credit-impaired.



(ii) *Financial position*

Set out below is a summary of the consolidated financial position of the Group as at 31 December 2018 and as at 31 December 2019, as extracted from the 2019 Annual Report and the consolidated financial position of the Group as at 30 June 2020 as extracted from the 2020 Interim Results Announcement:

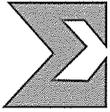
	30 June 2020	As at 31 December	
	<i>RMB'000</i>	2019	2018
		<i>RMB'000</i>	<i>RMB'000</i>
Non-current assets			
Property, plant and equipment	536,989	519,674	491,426
Right-of-use assets	37,006	29,138	–
Land use rights	–	–	21,667
Deposits paid for acquisition of property, plant and equipment	34,802	33,269	25,842
Pledged deposit in a financial institution	15,000	2,090	2,064
Other non-current assets	2,988	2,194	8
	<u>626,785</u>	<u>586,365</u>	<u>541,007</u>
Current assets			
Inventories	233,947	215,489	204,188
Trade and other receivables	579,058	599,711	435,047
Other current assets	4,572	2,373	3,613
Fixed bank deposits	100,000	45,000	28,221
Bank balances and cash	190,343	177,445	248,918
	<u>1,107,920</u>	<u>1,040,018</u>	<u>920,668</u>
TOTAL ASSETS	1,734,705	1,626,383	1,461,675
Current liabilities			
Trade and other payables	360,361	388,602	289,459
Provision for damages	242,622	232,159	218,725
Bank and other borrowings	236,083	189,517	240,383
Other current liabilities	31,195	41,234	48,307
	<u>870,261</u>	<u>851,512</u>	<u>796,874</u>
Non-current liabilities			
Lease liabilities	7,682	3,242	–
Deferred income	–	–	750
Deferred tax liabilities	29,552	25,135	6,987
Bank and other borrowings	76,485	16,120	10,114
	<u>113,719</u>	<u>44,497</u>	<u>17,851</u>



	30 June 2020	As at 31 December	
	<i>RMB'000</i>	2019	2018
		<i>RMB'000</i>	<i>RMB'000</i>
TOTAL LIABILITIES	983,980	896,009	814,725
Equity			
Share capital	82,244	82,244	82,244
Share premium and reserves	667,948	647,547	563,916
Equity attributable to owners of the Company	750,192	729,791	646,160
Non-controlling interests	533	583	790
TOTAL EQUITY	750,725	730,374	646,950

Non-current assets of the Group as at 31 December 2018, 31 December 2019 and 30 June 2020 mainly comprised, among others, property, plant and equipment. Balance of total non-current assets slightly increased by approximately 8.4% from approximately RMB541.0 million as at 31 December 2018 to approximately RMB586.4 million as at 31 December 2019. Such increase was mainly due to the increase of around 5.8% in carrying value of property, plant and equipment from approximately RMB491.4 million as at 31 December 2018 to approximately RMB519.7 million as at 31 December 2019 mainly attributable to purchases of new equipment during the year. Balance of total non-current assets slightly increased by approximately 6.9% from approximately RMB586.4 million as at 31 December 2019 to approximately RMB626.8 million as at 30 June 2020, which was mainly attributable to: (i) the further increase in carrying value of property, plant and equipment by approximately RMB17.3 million mainly as a result of new equipment purchased during the period for the purpose of business expansion of the Group; and (ii) the increment of approximately RMB12.9 million in the non-current pledged deposit in a financial institution as at 30 June 2020 as a result of increases in bank and other borrowing which require pledged deposit.

As at each of 31 December 2018, 31 December 2019 and 30 June 2020 respectively, current assets of the Group mainly comprised inventories, trade and other receivables and bank balances and cash. Balance for total current assets as at 31 December 2019 increased by approximately 13.0% mainly because of the increases in trade and other receivables of approximately 37.9% from approximately RMB435.0 million as at 31 December 2018 to approximately RMB599.7 million as at 31 December 2019 which are generally in line with the corresponding increase in revenue. Total current assets further increased by approximately 6.5% as at 30 June 2020 mainly attributable to the increases in fixed bank deposits and bank balances and cash by approximately 122.2% and 7.3% following the drawdowns from existing and new bank and other borrowings made during the period.



Current liabilities of the Group as at 31 December 2018, 31 December 2019 and 30 June 2020 mainly comprised, among other things, trade and other payables, provision for damages as well as bank and other borrowings. The balance as at 31 December 2019 increased from approximately RMB796.9 million as at 31 December 2018 to approximately RMB851.5 million as at 31 December 2019, representing a 6.9% growth and such increment was mainly a result of the increases in (i) trade and other payables of approximately 34.2%; and (ii) provision for damages of approximately 6.2%. The increase in the balance for trade and other payables was mainly attributable to and was generally in line with the expanded business operations of the Group.

The balance for provision for damages is in relation to an ongoing prolonged proceeding against the Company's subsidiary Capxon Electronic Industrial Co., Ltd ("Capxon Taiwan") (the "Litigation") in relation to an arbitration claim filed by a customer (the "Claimant") in 2011 for damages totaling 2,427,186,647 Japanese Yen (approximately equal to RMB151.2 million) (the "Arbitration"). We note that relevant payables/provisions for damages relating to the Litigation have been accrued/provided for in the consolidated accounts of the Group since 2014. Based on the disclosures in the 2020 Interim Results Announcement, the legal proceedings in the High Court of Hong Kong (the "HK Court") in relation to matters relevant to the Arbitration are still on-going and the winding up procedures of Capxon Taiwan are still in progress.

The balance as at 30 June 2020 increased from approximately RMB851.5 million as at 31 December 2019 to approximately RMB870.3 million as at 30 June 2020, representing a small increase of around 2.2% and such increment was mainly a result of increases in (i) provision for damages of approximately 4.5% in relation to the ongoing proceeding against Capxon Taiwan as mentioned above; and (ii) bank and other borrowings of around 24.6% mainly as a result of higher financing need of the Group.

Non-current liabilities of the Group as at 31 December 2018, 31 December 2019 and 30 June 2020 mainly comprised deferred tax liabilities and bank and other borrowings. The balance for total non-current liabilities of the Group as at 31 December 2019 increased from approximately RMB17.9 million as at 31 December 2018 to approximately RMB44.5 million as at 31 December 2019 mainly as a result of increases in deferred tax liabilities and increase in bank borrowings. Total non-current liabilities of the Group as at 30 June 2020 increased from approximately RMB44.5 million as at 31 December 2019 to approximately RMB113.7 million as at 30 June 2020 mainly as a result of increases in bank and other borrowings by approximately RMB60.4 million due to higher financing need of the Group.

As disclosed in the 2019 Annual Report, gearing ratio (as represented by the net debt (including trade payables) divided by the sum of equity attributable to owners of the Company and net debt) was approximately 37.1% as at 31 December 2019, representing an increase of approximately 5.3% as compared to that of 31 December 2018. Such increase was mainly due to the increase in trade and bills payable of approximately RMB75.9 million and the decrease in cash and cash



equivalents of approximately RMB71.5 million. As disclosed in the 2020 Interim Results Announcement, gearing ratio (as represented by the net debt (including trade payables) divided by the sum of equity attributable to owners of the Company and net debt) was approximately 40.28% as at 30 June 2020, representing an increase of approximately 3.2% as compared to that of 31 December 2019. Such increase was mainly due to the increase in bank and other borrowings of approximately RMB106.9 million.

Equity attributable to owners of the Company (“NAV”) increased by approximately 12.9% from approximately RMB646.2 million as at 31 December 2018 to approximately RMB729.8 million as at 31 December 2019, and slightly increased further by around 2.8% to approximately RMB750.2 million as at 30 June 2020. NAV per Share, based on the total number of issued Shares of 844,559,841 as at the Latest Practicable Date, was approximately RMB0.864 (equivalent to approximately HK\$0.959) as at 31 December 2019 and approximately RMB0.888 (equivalent to approximately HK\$0.986) as at 30 June 2020. Save for the interim dividend of HK\$0.05 per Share for FY2017 paid to Shareholders in December 2017, no other dividend has been declared and paid by the Company to its Shareholders during the Period.

1.3. Valuation on property interests of the Group

The property interests of the Group (including but not limited to, interests in land and buildings held by the Group) (collectively, the “**Properties**”) have been valued by the Valuer. The full text of the valuation report and certificate of the Properties for their respective market value in existing state as at 30 June 2020 (the “**Valuation Report**”) is set out in Appendix II to the Scheme Document. According to the Valuation Report, the total market value in existing state of the Properties attributable to the Group in the PRC and Taiwan was approximately RMB702.5 million (equivalent to approximately HK\$779.8 million) as at 30 June 2020 (the “**Valuation**”). We understand from the management of the Group that all of the Properties since their construction and/or acquisition have been and are currently occupied by the Group as its own production bases, office uses or staff dormitory. As stated in the Valuation Report, the property interests held by the Group do not comprise land being developed or with immediate development potential.

We have reviewed the Valuation Report and discussed with the Valuer the methodology of and bases and assumptions adopted for the valuations and the adjustments made to arrive at the Valuation. We noted that the Valuer has valued those Properties which are located in the PRC, being the properties referred to under group 1 as set out under the Valuation Report involving purpose-built industrial plants with limited comparable sales in the market, using the cost approach. As disclosed in the Valuation Report, such approach is based on an estimate of the value for the existing use of the land by referencing with the available land sale transactions in the locality, plus the current gross replacement (reproduction) costs of the improvements, less allowances for physical deterioration and all relevant forms of obsolescence and optimisation. For the remaining Properties which are located in Taiwan under group 2, we noted that the Valuer adopted the market approach, and such approach involves the analysis of recent market evidence of similar properties to compare with the subject under valuation. According to the Valuer, recent market sales



evidence relating to properties that are similar to the Properties in Taiwan is generally available. We have reviewed and understand that the market data was derived from the sale of three properties located in the same building(s) and/or areas within close proximity to those Properties in Taiwan that were transacted within the past three years. Based on our review, we noted that each comparable is analysed on the basis of its unit rate; each attribute of the comparables is then compared with the subject and where there are any differences, the unit rate is adjusted to arrive at the appropriate unit rate for the subject by making percentage adjustments to the unit rate based on various factors, such as time, location, building age, building quality. The above valuation methodologies are, in our opinion, commonly used and reasonable approaches in establishing the respective market value of the Properties.

As further disclosed in the Valuation Report, based on the legal opinion provided to the Valuer by the Group's PRC legal adviser, certain portion of the Properties in group 1 have not yet been granted with proper title certificate(s) of building ownership rights, and such portion of the Properties are not freely transferable as at 31 May 2020. As such, the Valuer has not attributed any commercial value to that portion of the property. We understand from the PRC legal adviser, Tian Yuan Law Firm, and as stated in its PRC legal opinion that it is unlikely for the Company to obtain the relevant title certificate(s) for the ownership of the building and land use rights as the construction of such Properties have not strictly complied with the relevant PRC regulations.

Further to the above, in compliance with the requirements under note (1)(d) to Rule 13.80 of the Listing Rules, we have assessed the qualification and experience of the responsible person of the Valuer for its engagement as the independent professional valuer for the Valuation. We note that Mr. Vincent Cheung, the responsible person in charge of the Valuation, is a fellow of the Royal Institution of Chartered Surveyors, a member of the Hong Kong Institute of Surveyors, a Registered Professional Surveyor (General Practice) under the Surveyors Registration Ordinance (Cap. 417) in Hong Kong and a member of China Institute of Real Estate Appraisers and Agents, a member of Hong Kong Securities and Investment Institute, a member of Institute of Shopping Centre Management, a member of Hong Kong Institute of Real Estate Administrators and a Registered Real Estate Appraiser and Agent People's Republic of China, who has over 23 years of experience in the valuation of properties of similar magnitude and nature in the subject region. We have been confirmed by both the Company and the Valuer that neither of them is aware of any relationship which may render the Valuer not independent and we are satisfied that the Valuer is independent from the Company. Furthermore, the Valuer has also confirmed that it is an independent third party to the Offeror. In addition, we have also reviewed the Valuer's terms of engagement and noted that the scope of work is appropriate for arriving at the opinion of the market value on the Properties. Nothing has come to our attention that the Company has made any formal or informal representation to the Valuer that contravenes our understanding of the Valuation. The Valuer has also confirmed that the Valuation has been prepared in accordance with the HKIS Valuation Standards 2017 published by The Hong Kong Institute of Surveyors effective from 30 December 2017 with reference to the International Valuation Standards published by the International Valuation Standards Council effective from 31 January 2020; and the requirements set out in the Chapter 5 and Practice Note 12 of the Listing Rules; and Rule 11 of the Takeovers Code.



1.4. Adjusted NAV

In evaluating the Proposal and the Scheme, we have taken into account the adjusted consolidated NAV (the “Adjusted NAV”), which is provided by the Company and calculated based on the unaudited consolidated NAV as at 30 June 2020, adjusted with reference to the Valuation as at 30 June 2020. Details of the adjustment are set out in the table below.

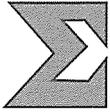
	<i>RMB'000</i>
Consolidated NAV as at 30 June 2020	750,192
<i>Add:</i>	
Revaluation surplus arising from the Valuation (<i>Note 1</i>)	<u>264,103</u>
Adjusted NAV	<u>1,014,295</u>
Adjusted NAV per Share (HK\$) (<i>Note 2</i>)	1.33
Cancellation Price (HK\$)	0.60
Discount represented by the Cancellation Price to Adjusted NAV per Share	54.9%

Notes:

1. This represents a revaluation surplus calculated by reference to the fair value of the Properties as at 30 June 2020 as disclosed in the Valuation Report, net of the book value of such Properties as of 30 June 2020 and the associated deferred tax in the relevant jurisdictions.
2. Based on 844,559,841 Shares in issue as at the Latest Practicable Date.

As set out in the above table, the Cancellation Price of HK\$0.60 per Share represents a discount of approximately 54.9% to the Adjusted NAV per Share of approximately HK\$1.33.

The appreciation in value of the Properties represented by the Valuation as shown above was mainly attributable to the fact that most of the Properties have been stated at cost in the consolidated financial statements of the Group since their construction or acquisition in accordance with the accounting policy adopted by the Group. We also note that all of the Properties since the completion of their constructions or their acquisitions have been and are currently occupied by the Group for its own operations, as factories, offices or as staff dormitories. According to the Directors, the Group has no intention to dispose of or transfer the relevant property interests and accordingly, such appreciation amount is unlikely to be realised. As also set out in the Explanatory Statement, it is the intention of the Offeror that the Group shall maintain its existing business, which principally comprises the manufacture and sale of capacitors and aluminum foils, and the Offeror has no plan to introduce any material changes to the business and/or assets of the Group, to redeploy its fixed assets or to discontinue the employment of employees of the Group as a result of the Proposal. Having



considered the aforesaid, we consider that the appreciation in value of the Properties is not of material relevance in considering the underlying value of the Group and accordingly, we have assigned less weight to the Adjusted NAV in comparison to our overall analyses.

2. Prospects of the Group

As discussed in detail in section headed “1.2 Financial information of the Group” above, the Group is principally engaged in the manufacturing and sales of capacitors and aluminum foils which are the principal raw materials used for the production of capacitors. Although from a commercial perspective, passive components such as capacitors and aluminum foils will likely benefit from the ongoing developments in 5G related technology, artificial intelligence, blockchains and cloud, however, the industry prospect for this sector remains uncertain as it is being affected by, among others, the intensifying China and US tension particularly in the technology sector. As discussed in the 2019 Annual Report, most passive components such as the components produced by the Group are in a relatively mature stage of their product lifetime and as such, there is a high correlation between industry fluctuation and the general economic cycle.

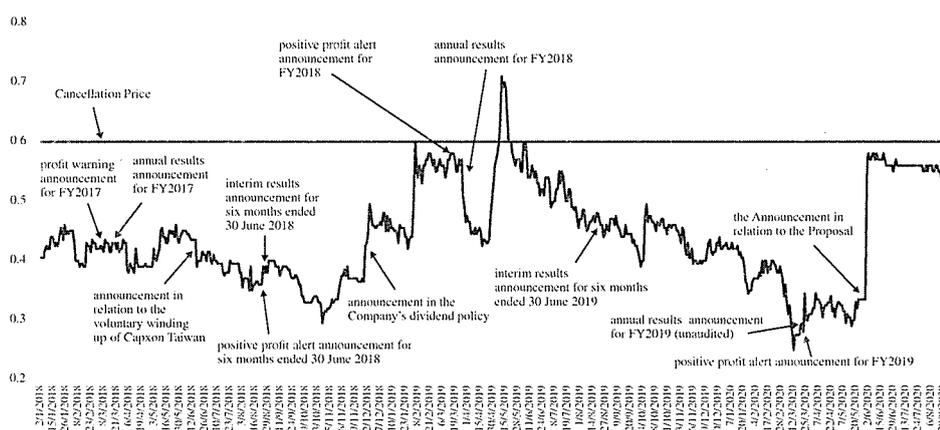
We have noted from each of the 2018 Annual Report and the 2019 Annual Report that the Group’s revenue derived from its external customers in the PRC represented approximately 84.4%, 84.7% and 86.7% for each of FY2017, FY2018 and FY2019, respectively. Furthermore, we noted from the 2018 Annual Report and the 2019 Annual Report that approximately 97.7%, 97.9% and 97.6% of the Group’s non-current assets (excluding pledged deposit in a financial institution and deferred tax asset) were located in the PRC for each of FY2017, FY2018 and FY2019, respectively. As a majority of the Group’s business operations are conducted in the PRC, we consider the outlook of the Group’s business would also largely depends on, among others, the economic prospects of the PRC as a whole. In this respect, we note from the national data published by the National Bureau of Statistics of China, gross domestic product (“GDP”) of China have recorded a drop of around 6.8% in the first quarter of 2020 as compared to the corresponding period last year. On 22 May 2020, China government further announced in 中國第十三屆全國人民代表大會第三次會議中國總理李克強作政府工作報告 that no GDP target will be set for the year 2020, for the first time since 1990. We have discussed and understand from the management of the Group that the Group’s main products, being aluminum capacitors, are normally purchased by its customers for the purpose of manufacturing electronic devices such as communication equipment and other telecommunication tools for their export sales to international clients, including, but not limited to the US. In the midst of the intensifying China and US tension particularly on the evolving policies of the US government’s sanctions on, among others, telecommunications components and products manufactured in China in general, and the impacts of COVID-19 pandemic on the China’s economy and the world are yet to unfold, it is expected these factors will cast uncertainty on the Group’s ability to maintain its business performance in the past. Given the above circumstances, the business prospects of the Company in the near future could be subject to challenges.



3. Analysis on price performance and trading liquidity of the Shares

3.1. Historical price performance of the Shares

Set out below is the movement of the closing prices of the Shares during the period from 2 January 2018 to the Latest Practicable Date (the “**Review Period**”), and the announcements of the Company relating to certain corporate events that took place during the Review Period. The Review Period, which covers a period of over 24 months, is considered to represent a sufficient period of time to provide a general overview of the recent market performance of the Shares for the purpose of this analysis:



Source: Bloomberg

The closing prices of the Shares ranged from HK\$0.25 to HK\$0.71 during the period between 2 January 2018 and the Last Trading Day (both dates inclusive, the “**Pre-announcement Period**”), with an average of around HK\$0.43.

Share closing prices exhibited a general decreasing trend during the year of 2018. The Share closing price fluctuated within a tight range of approximately HK\$0.39 and approximately HK\$0.46 between 2 January 2018 and 28 March 2018. The Share closing price remained the same at HK\$0.43 on 3 April 2018 after the publication of the Company’s annual results announcement for FY2017 on 29 March 2018. The Share closing price subsequently declined by approximately 10.5% on 4 April 2018 and further by approximately 1.3% to approximately HK\$0.38 on 6 April 2018. Closing price of the Share thereafter stabilised within a range of HK\$0.38 and HK\$0.46 between 9 April 2018 and 15 June 2018 until the publication of an inside information announcement by the Company on 19 June 2018 in relation to the voluntary winding up of its subsidiary, Capxon Taiwan, after which the Share closing price slightly increased by approximately 2.6% from HK\$0.39 as at market close on 19 June 2018 to approximately HK\$0.40 as at market close on 20 June 2018. Trading in the Shares then continued sideways until the publication of the Company’s interim results announcement for the six month period ended 30 June 2018 on 30 August 2018. The Share closing price then moderately increased by approximately 5.3% from approximately HK\$0.38 on 30 August 2018 to approximately HK\$0.40 on 31 August 2018. The Share closing price then remained within the range of approximately HK\$0.295 and



HK\$0.425 between September 2018 and December 2018 until the publication of the Company's dividend policy on 14 December 2018. The Share price closed up by approximately 3.5% subsequent to the publication of the Company's announcement on 14 December 2018 and further increased by approximately 11.2% to HK\$0.495 on 17 December 2018. Closing price per Share then fluctuated in the range between HK\$0.420 and HK\$0.490 until 4 February 2019, with a remarkable soar by around 22.4% from HK\$0.490 on 4 February 2019 to HK\$0.600 each on 8 February 2019. We are advised by the Company that it was not aware of any reasons for such significant increase in Share price.

Since then, closing price per Share fluctuated in a narrow range between HK\$0.53 and HK\$0.58 each until 28 March 2019. The Share closing price declined from HK\$0.57 on 28 March 2019 by approximately 10.5% to HK\$0.51 on 29 March 2019 following the publication of its annual results announcement for FY2019 after trading hours on 28 March 2019 and led a further declining trend until the end of April 2019. In early May 2019, the Share closing price surged remarkably from approximately HK\$0.475 each on 2 May 2019 and reached its peak for the Review Period of HK\$0.710 each on 15 May 2019. However, we are advised by the Company that the Company was not aware of any reasons for the significant increase in Share price and liquidity during the said period. Since then, the Share closing price then showed a gradual downward trend and further dropped to its trough of HK\$0.250 on 19 March 2020. It gradually recovered by around 38.0% to HK\$0.345 on 31 March 2020, being the first trading day immediately after the publication of the positive profit alert announcement by the Company on 30 March 2020. The Share closing price then fluctuated in a range between HK\$0.290 and HK\$0.345 during April and May 2020, and the trading of the Share closed at HK\$0.335 on 29 May 2020, being the Last Trading Date.

Trading in the Shares was suspended from 1 June to 5 June 2020 pending the release of the Announcement in relation to the Proposal. Following the publication of the Announcement after trading hours on 5 June 2020 and the resumption of trading on 8 June 2020, the Share closing price increased by around 70.1% to HK\$0.570 on 8 June 2020. Since then the Share closing price fluctuated in a narrow range within HK\$0.540 and HK\$0.580, and the Share closing price as at Latest Practicable Date was HK\$0.550.

In summary, the Cancellation Price of HK\$0.60 per Scheme Share represents:

- (i) premium of approximately 79.1% over the closing price of HK\$0.335 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a premium of approximately 94.2% over the average closing price of approximately HK\$0.309 per Share based on the daily closing prices as quoted on the Stock Exchange for the 10 trading days up to and including the Last Trading Day;



- (iii) a premium of approximately 88.1% over the average closing price of approximately HK\$0.319 per Share based on the daily closing prices as quoted on the Stock Exchange for the 30 trading days up to and including the Last Trading Day;
- (iv) a premium of approximately 88.1% over the average closing price of approximately HK\$0.319 per Share based on the daily closing prices as quoted on the Stock Exchange for the 60 trading days up to and including the Last Trading Day;
- (v) a premium of approximately 76.0% over the average closing price of approximately HK\$0.341 per Share based on the daily closing prices as quoted on the Stock Exchange for the 90 trading days up to and including the Last Trading Day;
- (vi) a premium of approximately 67.1% over the average closing price of approximately HK\$0.359 per Share based on the daily closing prices as quoted on the Stock Exchange for the 120 trading days up to and including the Last Trading Day;
- (vii) a premium of approximately 54.6% over the average closing price of approximately HK\$0.388 per Share based on the daily closing prices as quoted on the Stock Exchange for the 180 trading days up to and including the Last Trading Day; and
- (viii) a premium of approximately 9.1% over the closing price of HK\$0.550 per Share as at the Latest Practicable Date.

The Share price following the publication of the Announcement is likely to be driven by the Proposal and the Scheme. As such, we consider that there is no assurance that the Share price will remain at the current levels if the Proposal and the Scheme do not take place or lapse.



3.2. Trading liquidity of the Shares

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

	Average daily trading volume of the Shares	Approximate % of average daily trading volume to the total issued Shares <i>(Note 1)</i>	Approximate % of average daily trading volume to the public float of the Company <i>(Note 2)</i>
2018			
January	540,301	0.06%	0.22%
February	294,006	0.03%	0.12%
March	243,048	0.03%	0.10%
April	585,000	0.07%	0.23%
May	330,193	0.04%	0.13%
June	237,200	0.03%	0.09%
July	165,905	0.02%	0.07%
August	201,876	0.02%	0.08%
September	133,789	0.02%	0.05%
October	255,619	0.03%	0.10%
November	99,636	0.01%	0.04%
December	904,542	0.11%	0.36%
2019			
January	140,364	0.02%	0.06%
February	2,688,471	0.32%	1.08%
March	1,969,333	0.23%	0.79%
April	1,201,192	0.14%	0.48%
May	3,122,776	0.37%	1.25%
June	488,753	0.06%	0.20%
July	429,818	0.05%	0.17%
August	1,156,461	0.14%	0.46%
September	252,952	0.03%	0.10%
October	385,810	0.05%	0.15%
November	323,429	0.04%	0.13%
December	709,556	0.08%	0.28%



	Average daily trading volume of the Shares	Approximate % of average daily trading volume to the total issued Shares (Note 1)	Approximate % of average daily trading volume to the public float of the Company (Note 2)
2020			
January	745,200	0.09%	0.30%
February	1,018,200	0.12%	0.41%
March	930,727	0.11%	0.37%
April	274,316	0.03%	0.11%
From 1 May to 29 May 2020 (being the Last Trading Day)	335,000	0.04%	0.13%
Average during the Pre-announcement Period	683,436	0.08%	0.27%
From 8 June 2020 to the Latest Practicable Date (Note 3)	2,127,220	0.25%	0.85%

Source: Website of the Stock Exchange

Notes:

1. The calculation is based on the average daily trading volumes of the Shares divided by the total issued share capital of the Company as at the end of each month or as at the Latest Practicable Date, as applicable.
2. The total number of Shares held by the public is calculated based on the total number of issued Shares excluding those held by the Offeror and the Offeror Concert Parties, as at the end of each month or as at the Latest Practicable Date, as applicable.
3. 8 June 2020, being the date of the first trading day immediately following the publication of the Announcement.

From the table above, which outlines the average daily trading volume of the Shares as a percentage of the total issued Shares and as a percentage of the public float of the Company, save for the relatively higher liquidity in February, March and May 2019, we note that the average daily trading volume of the Shares has been generally thin. The average daily trading volume of the Shares during the Pre-announcement Period was 683,436 Shares, representing around 0.08% of the total issued share capital of the Company and around 0.27% of the public float of the Company. The publication of the Announcement heightened the trading activity, with the average daily trading volume of the Shares increasing to approximately 2,127,220 Shares (representing around 0.25% and 0.85% of the total issued Share capital and of the Shares held by the public respectively) in the period from 8 June 2020 to the Latest Practicable Date. The increased trading volume of the Shares was still relatively thin. Independent Shareholders should note that the improvement in liquidity of the Shares subsequent to the publication of the Announcement may not be sustainable if the Proposal and the Scheme do not take place or lapse.



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

4. Historical discount of market price of the Shares to the NAV per Share

We note that the Cancellation Price of HK\$0.60 represents a discount of (i) approximately 37.43% to the audited NAV per Share of approximately RMB0.864 (equivalent to approximately HK\$0.959) as at 31 December 2019; and (ii) approximately 39.15% to the unaudited NAV per Share of approximately RMB0.888 (equivalent to approximately HK\$0.986) as at 30 June 2020. In assessing the reasonableness of the discount to the NAV per Share represented by the Cancellation Price, we have looked at the performance of the Shares against the NAV per Share since 31 March 2017 (being the date of the first trading day after the Group released on 30 March 2017 its audited annual results for the financial year ended 31 December 2016) which we consider to be a reasonably sufficient period of time to provide a general overview of the recent market performance of the Shares as compared to the NAV per Share for the purpose of this analysis:

Period	Published consolidated NAV per Share HK\$	Closing price per Share			Premium/(Discount) to NAV per Share		
		Highest	Lowest	Average	Highest	Lowest	Average
		HK\$	HK\$	HK\$	Approx. %	Approx. %	Approx. %
31 Mar 2017 ⁽¹⁾ to 31 Aug 2017	0.82 ⁽²⁾	0.55	0.41	0.47	(32.93)	(50.00)	(42.68)
1 Sep 2017 ⁽¹⁾ to 29 Mar 2018	0.81 ⁽²⁾	0.53	0.34	0.41	(34.57)	(58.02)	(49.38)
3 Apr 2018 ⁽¹⁾ to 30 Aug 2018	0.79 ⁽²⁾	0.46	0.35	0.40	(41.77)	(55.70)	(49.37)
31 Aug 2018 ⁽¹⁾ to 28 Mar 2019	0.81 ⁽²⁾	0.60	0.30	0.43	(25.93)	(62.96)	(46.91)
29 Mar 2019 ⁽¹⁾ to 28 Aug 2019	0.85 ⁽²⁾	0.71	0.43	0.52	(16.47)	(49.41)	(38.82)
29 Aug 2019 ⁽¹⁾ to 31 Mar 2020 ⁽⁴⁾	0.89 ⁽²⁾	0.50	0.25	0.41	(43.82)	(71.91)	(53.93)
1 Apr 2020 ⁽¹⁾ to 29 Apr 2020 ⁽⁵⁾	0.98 ⁽²⁾	0.35	0.30	0.32	(64.29)	(69.39)	(67.35)
4 May 2020 ⁽¹⁾ to 29 May 2020 ⁽³⁾	0.96 ⁽²⁾	0.34	0.29	0.31	(64.58)	(69.79)	(67.71)
					Simple average		(52.02)

Notes:

- The first trading day immediately after the Company released its full year or interim results announcements.
- Based on the equity attributable to the Shareholders as extracted from the Company's respective annual reports or interim reports, divided by the total number of Shares in issue as at the respective period-end date.
- Being the Last Trading Day.
- Being the date of the publication of the unaudited annual results announcement of the Company for FY2019.
- Being the date of the publication of the audited annual results announcement of the Company for FY2019.



Based on the analysis set out above, we note that, since 31 March 2017, being the date for which the Company published its annual results announcement for the year ended 31 December 2016 up to the Last Trading Date, the average closing price of the Shares for each of the respective periods indicated above have traded at a discount (the “**Average Discount(s)**”) to the then NAV per Share. As shown above, the Average Discounts ranged from approximately 38.82% to approximately 67.71%, with an average of approximately 52.02%.

The discounts represented by the Cancellation Price of approximately 37.43% and approximately 39.15% to the audited NAV per Share as at 31 December 2019 and 30 June 2020 respectively, are close to the low end of the range of the Average Discounts as shown above.

5. *Peer companies*

As discussed under the section “1.1. Background information of the Group” above, the Group is mainly engaged in the manufacture and sale of capacitors and aluminum foils which are the principal raw materials used for the manufacture of capacitors under its own brand name. This is a unique industry among Hong Kong listed companies. We have conducted an exercise to identify entities whose shares are listed on the Stock Exchange which are primarily engaged in the manufacture and sale of capacitors with over 50% of its total revenue generated from such business in its latest financial year. Based on the said criteria, we have identified only one comparable entity, being Man Yue Technology Holdings Limited (stock code: 894, “**Man Yue**”).

In conducting our analysis, we compared the price to earnings ratio (“**PER**”) and price to book ratio (“**PBR**”) of the Company implied by the Cancellation Price and those of Man Yue using the latest publicly available financial information. We consider the use of PER and PBR analyses appropriate because these ratios are widely accepted methods to evaluate a profitable manufacturing business.

	Market capitalisation as at the Latest Practicable Date (approx. HK\$ million)	PER as at the Latest Practicable Date (times)	PBR as at the Latest Practicable Date (times)
Man Yue Technology Holdings Limited (Stock code: 894)	164.1	5.20	0.13
The Company (based on the Cancellation Price)	506.7	4.92	0.61

Source: Website of the Stock Exchange

Note: The PERs are calculated based on their respective latest audited consolidated profits attributable to owners of the respective companies for the financial year ended 31 December 2019, while the PBRs are calculated based on their respective latest published equity attributable to owners of the respective companies. The PBR of Man Yue as shown is based on the consolidated net asset value attributable to equity holders as at 31 December 2019 which is the latest published consolidated net asset value attributable to equity holders as at 4:30 p.m. on the Latest Practicable Date. The PBR of the Company is based on the NAV as at 30 June 2020.



As shown from the table above, the PBR implied by the Cancellation Price of approximately 0.61 times is significantly higher than that of Man Yue of around 0.13 times as at the Latest Practicable Date, which is considered favourable, whereas the PER of the Company is comparable to that of Man Yue.

Nevertheless, having stated the above, even though the PBR and PER represented by the Cancellation Price are favourable and comparable respectively comparing with its market comparable, given that we are only able to identify one comparable, we have placed less weight on this factor in our overall analysis.

6. *Privatisation precedents*

We have compared the Proposal and the Scheme to privatisation proposals of other companies whose shares are listed on the Main Board of the Stock Exchange announced since 1 January 2019, approximately 18 months before the date of the Announcement, and up to the Latest Practicable Date, including privatisation by way of scheme of arrangement and general offer with an intention to privatise the subject companies, but excluding privatisation proposals which were not/yet to be approved (the “**Privatisation Precedents**”), which represents an exhaustive list of privatisation proposals we were able to identify from the Stock Exchange’s website satisfying the above selection criteria.

Although the business nature, financial performance and position and scale of the companies listed below may vary and some aspects of pricing may be industry-specific, we consider that, in light of our selection criteria, the recent successful privatisation exercises of the Main Board listed companies under similar market conditions and sentiments can provide us with a comparative analysis of the cancellation price and the then prevailing market prices as well as a general overview of the recent market trend of the pricing of this type of transaction in the Hong Kong equity capital market as a whole. Based on the aforesaid, we regard the comparison of the Proposal with the Privatisation Precedents has reference value and is one of our analyses in assessing the fairness and reasonableness of the Cancellation Price.



The table below illustrates the premium represented by the offer/cancellation price over the respective last trading day and the respective 10 days, 30 days, 60 days, 90 days, 120 days and 180 days average share prices in respect of the Privatisation Precedents:

Date of the announcement	Company name and stock code	Principal Business(es)	Cancellation price HK (\$)	Premium/(discount) of the cancellation price over/(to) the (average) closing share price up to and including the						Remarks	
				Last trading day (%)	Last 10 trading days (%)	Last 30 trading days (%)	Last 60 trading days (%)	Last 90 trading days (%)	Last 120 trading days (%)		Last 180 trading days (%)
21-Jun-20	China Baofeng (International) Limited (3966.HK)	Photovoltaic power generation and lighting products	2.60	27.50	61.49	52.00	42.90	39.00	36.80	30.70	
20-Apr-20	Allied Properties (H.K.) Limited (56.HK)	Property investment, property development, hospitality related activities and financial services	1.92	34.30	40.15	39.10	33.30	29.73	28.00	23.10	Note 1
3-Apr-20	Elec & Eltek International Company Limited (1151.HK and E16.SI)	Fabrication and distribution of double-sided, multi-layer and high density interconnect printed circuit boards	18.07	70.47	46.79	41.50	41.17	45.02	47.39	54.44	
20-Mar-20	Li & Fung Limited (494.HK)	Consumer goods design, development, sourcing and logistics	1.25	150.00	135.85	95.20	72.70	62.10	57.00	43.80	
27-Feb-20	Wheelock and Company Limited (20.HK)	Property development and investment businesses in Hong Kong, the PRC and Singapore, hotel operations and container terminal operations	71.9	52.20	49.20	45.20	43.90	45.08	48.13	45.20	Note 2



Date of the announcement	Company name and stock code	Principal Business(es)	Cancellation price HK (\$)	Premium/(discount) of the cancellation price over/(to) the (average) closing share price up to and including the							Remarks
				Last trading day (%)	Last 10 trading days (%)	Last 30 trading days (%)	Last 60 trading days (%)	Last 90 trading days (%)	Last 120 trading days (%)	Last 180 trading days (%)	
20-Jan-20	BBI Life Sciences Corporation (1035.HK)	Life sciences research products and services, and DNA synthesis products in the PRC	3.5	16.28	31.43	42.45	46.10	47.92	55.65	56.68	
12-Dec-19	Joyce Boutique Group Limited (647.HK)	Retail and wholesale distribution of leading international fashion, accessory and beauty product brands	0.28	91.78	100.00	82.17	62.70	47.37	40.00	32.20	
27-Nov-19	China Agri-Industries Holdings Limited (606.HK)	Oilseeds processing, rice processing and trading, wheat processing and brewing materials	4.25	34.07	40.92	53.17	64.73	72.49	72.62	70.00	
1-Nov-19	Springland International Holdings Limited (1700.HK)	Operation of department stores and supermarkets in the PRC	2.3	63.10	64.40	56.80	55.40	53.20	51.30	48.60	
20-Oct-19	Dah Chong Hong Holdings Limited (1828.HK)	Integrated motor and consumer products distribution in Asia	3.7	37.55	42.31	54.81	56.12	54.17	49.80	41.22	
3-Oct-19	Huaneng Renewables Corporation Limited (958.HK)	Wind power and solar power generation	3.17	18.73	18.28	29.92	40.27	43.44	44.09	41.52	



Date of the announcement	Company name and stock code	Principal Business(es)	Cancellation price HK (\$)	Premium/(discount) of the cancellation price over/(to) the (average) closing share price up to and including the							Remarks
				Last trading day (%)	Last 10 trading days (%)	Last 30 trading days (%)	Last 60 trading days (%)	Last 90 trading days (%)	Last 120 trading days (%)	Last 180 trading days (%)	
2-Oct-19	AVIC International Holdings Limited (161.HK)	High-tech electronic products, retails and consumer products business and international engineering, trading and logistics	9	29.12	58.09	81.31	88.63	100.00	96.08	92.08	
12-Aug-19	TPV Technology Limited (903.HK)	Monitor and television manufacturer	3.86	41.39	50.78	54.50	74.66	87.38	104.23	138.79	Note 3
27-Jun-19	Asia Satellite Telecommunications Holdings Limited (1135.HK)	Satellite transmission services and transponder capacity in the Asia Pacific region	10.22	23.43	33.42	44.44	50.44	56.52	63.52	70.96	
18-Jun-19	C.P. Lotus Corporation (121.HK)	Operation of large scale hypermarket stores located in the northern, southern and eastern parts of the PRC	0.11	10.00	12.00	29.40	30.30	26.50	28.10	21.90	
14-Jun-19	China Automation Group Limited (569.HK)	Safety and critical control system and control valves specialised for petrochemical industries, and hospital business	1.5	23.97	36.86	47.78	47.49	46.63	45.49	42.45	



Date of the announcement	Company name and stock code	Principal Business(es)	Cancellation price HK (\$)	Premium/(discount) of the cancellation price over/(to) the (average) closing share price up to and including the						Remarks	
				Last trading day (%)	Last 10 trading days (%)	Last 30 trading days (%)	Last 60 trading days (%)	Last 90 trading days (%)	Last 120 trading days (%)		Last 180 trading days (%)
4-Apr-19	China Hengshi Foundation Company Limited (1197.HK)	Research and development, production and sales of various fiberglass fabrics	2.5	10.62	16.82	17.37	19.05	24.38	25.63	27.55	
28-Mar-19	China Power Clean Energy Development Company Ltd (735.HK)	Development, construction, owning and management of clean energy power plants in the PRC	5.45	41.90	60.80	78.10	94.00	101.90	105.70	88.58	Note 4
				Maximum	135.85	95.20	94.00	101.90	105.70	138.79	
				Minimum	10.00	17.37	19.05	24.38	25.63	21.90	
				Average	43.13	49.98	52.51	54.60	55.53	53.88	
5 June 2020	The Company		79.1	94.2	88.1	88.1	76.0	67.1	54.6		

Source: Bloomberg and the website of the Stock Exchange

Note 1: The cancellation price of HK\$1.92 represents the scheme cash consideration of HK\$0.42 per scheme share and the scheme cash dividend of HK\$1.50 per ordinary share of the company.

Note 2: The cancellation price of HK\$71.90 represents the scheme cash consideration of HK\$12.00 per scheme share and the value (based on their closing prices on the last trading day) of the Wharf Real Estate Investment Company Limited (1997.HK) share and The Wharf (Holdings) Limited (4.HK) share to be distributed per scheme share.

Note 3: The cancellation price of HK\$3.86 represents the cash consideration for scheme share listed on The Stock Exchange of Hong Kong Limited. The scheme shareholder who holds scheme shares listed on the Singapore Exchange Securities Trading Limited is entitled to the equivalent of HK\$3.86 in Singapore dollar.

Note 4: The cash alternative of HK\$5.45 for each scheme share had been used for the purpose of this comparison. The reference value of the share alternative which implies a consideration for each ordinary scheme share of around HK\$3.77 to HK\$5.39 as disclosed in the scheme document, is not adopted in our analysis.

Note 5: Premiums/(discounts) shown above for certain trading periods were independently calculated as they were not published in the respective scheme/composite documents. The premiums/(discounts) (rounded to the nearest two decimal places) were derived by comparing the average closing share price (rounded to two decimal places) and the respective cancellation price.

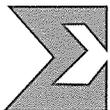


Based on the table above, the average premium of the Privatisation Precedents over the last trading day share price, 10 days, 30 days, 60 days, 90 days, 120 days and 180 days share price averages were approximately 43.13%, 49.98%, 52.51%, 53.55%, 54.60%, 55.53% and 53.88% respectively. We note that the premiums represented by the Cancellation Price over the Share closing price on the Last Trading Day, and the average Share closing prices for the last 10 days, 30 days, 60 days, 90 days, 120 days and 180 days are all above the respective average premiums of the Privatisation Precedents, which are considered favourable.

DISCUSSION OF PRINCIPAL REASONS AND FACTORS

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

- (1) as the impacts of the COVID-19 pandemic and intensifying China and US tension on the China's and the world economy are yet to unfold, the business prospects of the Group is subject to challenges and uncertainties as discussed in the section headed "2. Prospects of the Group" above and there is no guarantee that the existing profitability of the Group can be maintained;
- (2) the Cancellation Price represents a significant premium over the prevailing market prices of the Shares and in particular, it is also significantly higher than the average Share closing price for the Pre-announcement Period of around HK\$0.43 per Share;
- (3) given the generally thin trading volume of the Shares as discussed in the section headed "3.2 Trading liquidity of the Shares" above, it is uncertain as to whether there would be sufficient liquidity in the Shares for the Scheme Shareholders to dispose of a significant number of Shares in the open market without causing an adverse impact on the market price of the Shares and accordingly, the market trading price of the Shares may not necessarily reflect the proceeds that the Scheme Shareholders can receive by the disposal of their Shares in the open market. The Proposal and the Scheme, therefore, represent an opportunity and a viable alternative exit for the Scheme Shareholders, particularly, for those who are holding a large quantity of Shares, to dispose of their entire holdings at a price that represents a significant premium over the prevailing market prices of the Shares, if they so wish;
- (4) as illustrated in the "4. Historical discount of market price of the Shares to the NAV per Share" above, although the Cancellation Price represents discounts to the NAV per Share as at 31 December 2019 and 30 June 2020 respectively, however, such discounts are close to the low end of the range of the Average Discounts;
- (5) as also discussed in the section headed "5. Peer companies", the PBR and PER represented by the Cancellation Price are favourable and comparable respectively by comparing with its market comparable, Man Yue; and



- (6) as discussed in the section headed “6. Privatisation precedents” above, the premiums represented by the Cancellation Price under the Proposal and the Scheme over the last trading day and the average Share closing prices for the last 10 days, 30 days, 60 days, 90 days, 120 days and 180 days Share price averages are above the corresponding average premiums of the Privatisation Precedents.

OPINION AND RECOMMENDATIONS

Based on the above principal factors and reasons, we consider the terms of the Proposal, including the Cancellation Price, are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the Court Meeting and the EGM respectively to approve and implement the Scheme.

The Shares have been trading in the market below the Cancellation Price since 8 June 2020 up to the Latest Practicable Date when they closed at HK\$0.55. However, there is still a possibility that the Share price may exceed the Cancellation Price in the period since the Latest Practicable Date and up to 5 October 2020, being the expected last day for trading in the Shares on the Stock Exchange. Accordingly, Shareholders are reminded to monitor the trading price and liquidity of the Shares during this period and, having regard to their own circumstances, consider selling their Shares in the open market, if the net proceeds obtained from such disposal of the Shares (after deducting all transaction costs) would be higher than HK\$0.60 per Share. Independent Shareholders should also keep in mind that, if applicable, dealings in the Shares will be suspended from 6 October 2020, being the day immediately following the expected last day for dealing in the Shares on the Stock Exchange, and up to the withdrawal of listing of the Shares from the Stock Exchange.



Yours faithfully,
for and on behalf of
SOMERLEY CAPITAL LIMITED

Kenneth Chow
Managing Director

Mr. Kenneth Chow is a licensed person registered with the SFC and a responsible officer of Somerley to carry out Type 6 (advising on corporate finance) regulated activity under the SFO and has over 20 years of experience in corporate finance industry.