23 January 2024

To the Independent Board Committee and the Independent H Shareholders

Dear Sirs,

(1) PROPOSED PRIVATISATION OF WEIQIAO TEXTILE BY WEIQIAO TEXTILE TECHNOLOGY BY WAY OF MERGER BY ABSORPTION OF WEIQIAO TEXTILE AND (2) PROPOSED WITHDRAWAL OF LISTING

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent H Shareholders in relation to, amongst others, the Merger, details of which are set out in the letter from the Board (the "**Letter from the Board**") contained in the composite document dated 23 January 2024 jointly issued by the Company and the Offeror (the "**Composite Document**"), of which this letter forms part. Capitalised terms used in this letter shall have the same meaning as defined in the Composite Document unless the context requires otherwise.

On 4 December 2023, the Offeror and the Company entered into the Merger Agreement, pursuant to which the Offeror and the Company will implement the Merger subject to the terms and conditions of the Merger Agreement, including the Pre-conditions and the Conditions. After completion of the Merger, the Company will be merged into and absorbed by the Offeror in accordance with the PRC Company Law and other applicable PRC Laws.

Pursuant to the Merger Agreement, conditional upon the fulfilment (or waiver, as applicable) of the Pre-Conditions and the Conditions, the Offeror will pay the Cancellation Price for the cancellation of the Shares in the amount of (a) HK$3.50 per H Share to the H Shareholders for the cancellation of the H Shares and (b) RMB3.180870 per Domestic Share, which is equivalent to the Cancellation Price of each H Share based on the Exchange Rate, to the Domestic Shareholders for the cancellation of the Domestic Shares (other than Weiqiao Chuangye, being the parent company of the Offeror). The cancellation of the Domestic Shares held directly by Weiqiao Chuangye is to be satisfied through the issuance of registered capital of the Offeror, in accordance with the description under the section headed *"3. PRINCIPAL TERMS OF THE MERGER AGREEMENT"* of the Letter from the Board.

After completion of the Merger, the Offeror will assume all assets, liabilities, interests, businesses, employees, contracts and all other rights and obligations of the Company and the Company will be eventually deregistered.

As at the Latest Practicable Date, the Pre-Conditions had been fulfilled, and the Conditions have not yet been fulfilled. Upon satisfaction of all the Conditions to effectiveness, the Company will apply to the Stock Exchange for voluntary withdrawal of the listing of the H Shares from the Stock Exchange pursuant to Rule 6.15(2) of the Listing Rules.

THE INDEPENDENT BOARD COMMITTEE

The Board has established the Independent Board Committee, consisting of all independent non-executive Directors, being Mr. George Chan Wing Yau, Mr. Chen Shuwen and Mr. Liu Yanzhao, to advise the Independent H Shareholders as to (i) whether the terms of the Merger are fair and reasonable for the purpose of the Takeovers Code; and (ii) whether to vote in favour of the Merger at the EGM and the H Shareholders' Class Meeting. As Ms. Zhao Suhua, the non-executive Director, is the wife and sister of the relevant shareholders of Weiqiao Chuangye, the Board is of the view that Ms. Zhao Suhua does not possess sufficient independence to serve as a member of the Independent Board Committee.

We, Elstone Capital Limited, have been appointed by the Company with the approval of the Independent Board Committee as the Independent Financial Adviser to advise the Independent Board Committee and the Independent H Shareholders in respect of the Merger.

OUR INDEPENDENCE

We are not associated or connected with the Company or the Offeror, their respective substantial or controlling shareholders or any party acting, or presumed to be acting, in concert with any of them. In the past two years, there was no engagement between Elstone Capital on the one hand and the Group or the Offeror or any party acting, or presumed to be acting, in concert with any of them on the other. Apart from normal professional fees paid or 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 or the Offeror, their respective substantial or controlling shareholders or any party acting, or presumed to be acting, in concert with any of them. Accordingly, we are considered eligible to give an independent advice in respect of the Merger.

BASIS OF OUR OPINION

In formulating our opinion and advice, we have reviewed, among others, (i) the Composite Document; (ii) the annual reports of the Company for the years ended 31 December 2021 and 2022; (iii) the interim report of the Company for the six months ended 30 June 2023; (iv) the unaudited consolidated management accounts of the Group for the 11 months ended 30 November 2023; and (v) the independent valuation report of the property interests (the "**Property Valuation Report**") of the Group issued by Asia-Pacific Consulting and Appraisal Limited as set out in Appendix II to the Composite Document. We have relied on the information and facts supplied, and the opinions expressed, by the Directors and the management of the Company, which we have assumed to be true, accurate and complete at the time when they were made and continue to be so as at the Latest Practicable Date, and should there be any material changes to our opinion after the Latest Practicable Date and up to the end of the Offer Period, the Independent Board Committee and the Independent H Shareholders would be notified as soon as possible in accordance with Rule 9.1 of the Takeovers Code. We have also sought and received confirmation from the Directors that no material facts have been omitted from the information supplied and that the information which we have received is sufficient to enable us to reach our opinion and provide the advice as set out in this letter. We have no reason to doubt the truth and accuracy of the information provided to us or to believe that any material facts have been omitted or withheld. We have also assumed that all representations contained or referred to in the Composite Document were true at the Latest Practicable Date. We have also assumed that all statements of belief, opinion and intention made in the Composite Document were reasonably made after due enquiry. 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 Group, the Offeror or any of their respective associates.

In formulating our opinion, we have also made reference to certain Comparable Companies and Privatisation Precedents (both defined hereafter) for analysis purpose and the relevant information was obtained from the website of the Stock Exchange and Bloomberg. We have not, however, carried out any independent verification of the information available to us regarding the Comparable Companies and the Privatisation Precedents, nor have we conducted an independent investigation into the business and affairs, financial condition and future prospects of the companies involved. Our opinion is necessarily based upon the financial, economic, market, regulatory and other conditions as they existed on, and the facts, information, representations, and opinions made available to us as of the Latest Practicable Date.

We have not considered the tax, regulatory and other legal implications on the H Shareholders in respect of the Merger, since these depend on their individual circumstances. In particular, the H Shareholders who are overseas residents or subject to overseas taxation or Hong Kong taxation on security dealings should consider their own tax position and, if in any doubt, should consult their own professional advisers.

PRINCIPAL TERMS OF THE MERGER

Details of the terms of the Merger are set out in the Letter from the Board.

1. Cancellation Price

Pursuant to the Merger Agreement, conditional upon the fulfilment (or waiver, as applicable) of the Pre-Conditions and the Conditions, the Offeror will pay the Cancellation Price for the cancellation of the Shares in the amount of (a) HK$3.50 per H Share to the H Shareholders for the cancellation of the H Shares and (b) RMB3.180870 per Domestic Share, which is equivalent to the Cancellation Price of each H Share based on the Exchange Rate, to the Domestic Shareholders for the cancellation of the Domestic Shares (other than Weiqiao Chuangye, being the parent company of the Offeror). In consideration for the cancellation of the Domestic Shares held by Weiqiao Chuangye, Weiqiao Chuangye will be issued with RMB3.180870 registered capital of the Offeror for each Domestic Share, which is equivalent to the Cancellation Price in RMB based on the Exchange Rate for each Domestic Share, in accordance with the description under the section headed *"3. PRINCIPAL TERMS OF THE MERGER AGREEMENT"* of the Letter from the Board.

As set out in the Letter from the Board, the Cancellation Price has been determined on a commercial basis after taking into account, among other things, the prices of the Shares traded on the Stock Exchange and with reference to other privatisation transactions in Hong Kong in recent years.

Save for the final dividend of the Company for the year ended 31 December 2023 (if any), if, after the date of the Merger Agreement, any dividend and/or other distribution and/or other return of capital is announced, declared or paid in respect of the Shares, the Offeror reserves the right to reduce the Cancellation Price by all or any part of the gross amount or value of such dividend, distribution and/or, as the case may be, return of capital (before tax) after consultation with the Executive, in which case any reference in the Merger Agreement will be deemed to be a reference to the Cancellation Price as to reduced.

2. Pre-Conditions and Conditions

The implementation of the Merger will be subject to the fulfilment (or waiver, as applicable) of the Pre-Conditions and the Conditions. As at the Latest Practicable Date, the Pre-Conditions had been satisfied. Details of the Pre-Conditions and the Conditions are set out in the section headed *"3. PRINCIPAL TERMS OF THE MERGER AGREEMENT"* of the Letter from the Board.

3. Right of a Dissenting Shareholder

According to the Articles, any Dissenting Shareholder may request the Company and/or other Shareholders who have approved the Merger to acquire its Shares at a "fair price". If any Dissenting Shareholder exercises its right, the Offeror will assume the obligation which the Company and/or the Consenting Shareholders may have towards such Dissenting Shareholder to acquire the Shares held by such Dissenting Shareholder at a "fair price". Details of the right of a Dissenting Shareholder are set out in the section headed *"3. PRINCIPAL TERMS OF THE MERGER AGREEMENT"* of the Letter from the Board.

PRINCIPAL FACTORS AND REASONS CONSIDERED

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

1. Information and prospects of the Group

The Company is a joint stock limited company incorporated in the PRC with limited liability, the H Shares of which are listed and traded on the Stock Exchange. The Group is primarily engaged in (i) the production, sales and distribution of cotton yarn, grey fabric and denim (the "**Textile Business**") and (ii) the electricity and steam business (the "**Electricity and Steam Business**").

According to the annual report of the Company for the year ended 31 December 2022 (the "**2022AR**"), the Textile Business and the Electricity and Steam Business accounted for approximately 63.3% and 36.7% of the total revenue of the Group for the year ended 31 December 2022 ("**FY2022**"). For FY2022, revenue from the Group's cotton yarn, grey fabric and denim accounted for approximately 43.4%, 50.7% and 5.9% of the revenue from the Textile Business respectively; while revenue from overseas sales and domestic sales accounted for approximately 29.5% and 70.5% of the revenue of the Textile Business. The Electricity and Steam Business involves generation of electricity and steam for the Group's internal use in the production of textile products and sales of the remaining portion to external customers in the PRC.

1.1 Historical financial performance of the Group

The following table summarises the consolidated income statement of the Group for the three years ended 31 December 2020 ("**FY2020**"), 31 December 2021 ("**FY2021**") and FY2022 with reference to the Company's annual report for FY2021 (the "**2021AR**") and the 2022AR, and for the six months ended 30 June 2022 ("**6M2022**") and 30 June 2023 ("**6M2023**") with reference to the interim report for 6M2023 (the "**2023IR**"), respectively:

	For the year ended 31 December			For the six months ended 30 June	
	2020	**2021**	**2022**	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(audited)	*(audited)*	*(audited)*	*(unaudited)*	*(unaudited)*
Revenue	12,743,437	16,262,686	16,573,668	8,293,034	7,951,142
Sales of textile products	8,644,697	11,450,319	10,499,323	5,440,719	5,912,195
Sales of electricity and steam	4,098,740	4,812,367	6,074,345	2,852,315	2,038,947
Gross profit/(loss)	962,155	1,301,901	(1,016,202)	(419,219)	21,999
Gross profit/(loss) margin	*7.6%*	*8.0%*	*(6.1%)*	*(5.1%)*	*0.3%*
Profit/(loss) for the year/period	202,228	614,905	(1,562,659)	(651,114)	(505,552)
Profit/(loss) for the year/period attributable to owners of the Company	204,833	614,187	(1,557,643)	(650,036)	(504,331)

FY2021 vs FY2020

Revenue increased from approximately RMB12,743 million for FY2020 to approximately RMB16,263 million for FY2021, representing year-on-year increase of approximately 27.6%. Such increase was mainly contributed by (i) the increase in revenue from the Textile Business by approximately 32.5% which was mainly due to increase in sales volume of the textile products as well as the sales price, which was driven by the overall increase in the demand for textile products as consumption in the domestic and overseas textile and apparel markets gradually recovered as the COVID-19 pandemic was slowly subdued, and (ii) the increase in revenue from the Electricity and Steam Business by approximately 17.4% which was mainly attributable to the upward adjustment of sales price of electricity by the Group according to the established electricity sales pricing mechanism due to the rising price of coal being the major raw material.

Gross profit increased from approximately RMB962 million for FY2020 to approximately RMB1,302 million for FY2021, representing year-on-year increase of approximately 35.3%. Such increase was mainly attributable to the combined effect of (i) the increase in gross profit of the Textile Business to approximately RMB856 million for FY2021 from the gross loss of approximately RMB0.8 million for FY2020; and (ii) the decrease in gross profit of the Electricity and Steam Business from approximately RMB963 million for FY2020 to approximately RMB446 million for FY2021 mainly due to the decrease in sales volume of electricity resulting from decrease in demand for electricity from downstream customers and on the other hand, the time lag between rising production cost of electricity resulting from the relatively large fluctuations in the prices of coal and the sales price adjustment. Gross profit margin for FY2021 slightly improved to approximately 8.0%.

The Group recorded net profit attributable to owners of the Company of approximately RMB614 million for FY2021, representing a year-on-year increase of approximately 199.5%, primarily due to the increase in revenue and gross profits as mentioned above.

FY2022 vs FY2021

The Group recorded revenue of approximately RMB16,574 million for FY2022, representing year-on-year increase of approximately 1.9%. As advised by the management of the Company, revenue from the Textile Business decreased by approximately 8.3% to approximately RMB10,499 million, mainly due to the prolonged weakness of domestic and international textile market as a result of the impacts from adverse factors such as the international trade frictions and the changes in supply chain landscape (as mentioned in the sub-section headed "*1.5 Prospects of the Group*" below) leading to an overall decline in demand for textile products from the PRC. Revenue from the Electricity and Steam Business increased by approximately 26.2% to approximately RMB6,074 million for FY2022, resulting from the upward adjustment of sales price of electricity by the Group according to the established electricity sales pricing mechanism due to the rising price of coal, and the increase in sales volume due to increasing demand for electricity from downstream customers.

Despite the slight increase in revenue for FY2022, the Group recorded gross loss of approximately RMB1,016 million for FY2022 compared to the gross profit of approximately RMB1,302 million for FY2021. Such gross loss was primarily attributable to the substantial increase in the production costs for the Group's textile products, which mainly due to the fluctuation on price of cotton lint, being the major raw material. Gross profit of the Electricity and Steam Business also slightly decreased to approximately RMB402 million for FY2022 due to the fluctuation on coal prices, despite an increase in the revenue. The Group recorded a gross loss margin of approximately (6.1%) for FY2022 as compared to a gross profit margin of approximately 8.0% for FY2021.

The Group recorded net loss attributable to owners of the Company of approximately RMB1,558 million for FY2022 as compared to the net profit attributable to owners of the Company of approximately RMB614 million for FY2021 mainly due to the abovementioned factors.

6M2023 vs 6M2022

Revenue decreased from approximately RMB8,293 million for 6M2022 to approximately RMB7,951 million for 6M2023, representing a year-on-year decrease of approximately 4.1%. Despite the revenue from the Textile Business slightly increased by approximately 8.7% to approximately RMB5,912 million, the revenue from the Electricity and Steam Business decreased by approximately 28.5% to approximately RMB2,039 million, which we understood from the management of the Group was mainly affected by the impact of the adjustments to macro policies such as the 14th Five-Year Plan (2021–2025) for National Economic and Social Development of the PRC which, among others, highlights the green development and aims to reduce the carbon intensity, and the decreased demand from the downstream market.

The Group recorded gross profit of approximately RMB22 million for 6M2023 as compared to gross loss of approximately RMB419 million for 6M2022, which was mainly due to the decrease in gross loss from the Textile Business from approximately RMB580 million for 6M2022 to approximately RMB86 million for 6M2023. Such reduction in gross loss was contributed by (i) the increase in sales volume due to the recovery of domestic textile product market in the PRC during 6M2023 and (ii) the extent of increase in the sales prices of the Group's textile products was exceeded by the extent of increase in the production costs. The Group recorded overall minimal gross profit margin of approximately 0.3% for 6M2023 as compared to a gross loss margin of approximately (5.1%) for 6M2022.

Net loss attributable to owners of the Company slightly reduced to approximately RMB504 million for 6M2023 from approximately RMB650 million for 6M2022, mainly due to the decrease in gross loss of the Textile Business as above mentioned, offset by the increase in other expenses from approximately RMB26 million for 6M2022 to approximately RMB220 million for 6M2023 (including impairment provision for certain electricity assets based on the operation conditions of the electricity assets of RMB207 million).

Dividends

The Company declared dividend per Share of RMB0.061, RMB0.18, nil and nil for FY2020, FY2021, FY2022 and 6M2023 respectively.

1.2 Historical financial position of the Group

The following table summarises the consolidated statement of financial position of the Company as at 31 December 2021 and 2022 with reference to 2022AR and as at 30 June 2023 with reference to 2023IR:

	As at 31 December		**As at 30 June**
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
	(audited)	*(audited)*	*(unaudited)*
Total assets	25,218,482	25,504,185	24,288,685
Total liabilities	6,123,914	8,187,266	7,477,318
Net asset value ("**NAV**") attributable to owners of the Company	19,084,667	17,312,034	16,807,703

As at 31 December 2022, the Group's total assets were approximately RMB25,504 million, which primarily include, among others, (i) property, plant and equipment of approximately RMB8,509 million, (ii) inventory of approximately RMB3,062 million, (iii) deposit, prepayment and other receivable of approximately RMB1,002 million and (iv) bank balance and cash of approximately RMB11,402 million. As at 31 December 2022, the Group's total liabilities were approximately RMB8,187 million, which primarily include, among others, (i) trade payable of approximately RMB969 million, (ii) other payables and accruals of approximately RMB1,067 million and (iii) total bank borrowing of approximately RMB4,413 million. Net assets attributable to owners of the Company amounted to approximately RMB17,312 million as at 31 December 2022.

As at 30 June 2023, the Group's total assets were approximately RMB24,289 million, which primarily include, among others, (i) property, plant and equipment of approximately RMB8,292 million, (ii) inventory of approximately RMB3,171 million, (iii) deposit, prepayment and other receivable of approximately RMB1,693 million and (iv) bank balance and cash of approximately RMB10,110 million. As at 30 June 2023, the Group's total liabilities were approximately RMB7,477 million, which primarily include, among others, (i) trade payable of approximately RMB694 million, (ii) other payables and accruals of approximately RMB1,294 million and (iii) bank borrowing of approximately RMB4,410 million. Net assets attributable to owners of the Company amounted to approximately RMB16,808 million as at 30 June 2023.

1.3 Valuation on the property interests of the Group

The valuation of the Group's property interests as at 30 November 2023 was conducted by Asia-Pacific Consulting and Appraisal Limited, an independent valuer. The Property Valuation Report is enclosed in Appendix II to the Composite Document.

We have enquired the valuer on its experience in valuing similar property interests in the PRC and its independence. We have also reviewed the terms of engagement of the valuer, in particular its scope of work, which is appropriate to form the opinion required to be given and there are no limitations on the scope of work which might adversely affect the degree of assurance given by the valuer in the Property Valuation Report.

According to the Property Valuation Report, the total market value of the property interests in existing states attributable to the Group was approximately RMB6,207 million as at 30 November 2023.

As stated in the Property Valuation Report, in valuing the property interests, the valuer has complied with all requirements contained in Chapter 5 and Practice Note 12 of the Listing Rules, Rule 11 of the Takeovers Code, the RICS Valuation – Professional Standards published by the Royal Institution of Chartered Surveyors, the HKIS Valuation Standards published by the Hong Kong Institute of Surveyors, and the International Valuation Standards published by the International Valuation Standards Council.

We have reviewed and discussed the valuation with the valuer regarding the methodologies, bases and assumptions adopted in arriving at the values of the property interests. In particular, we understood that due to the nature of the buildings and structures of the properties and the particular location in which they are situated, there are unlikely to be relevant market comparable sales readily available, and thus the buildings and structures of the properties have been valued by the cost approach with reference to their depreciated replacement costs. Taking into account the nature of the properties and that the valuation is conducted in accordance with the aforesaid requirements, we consider that the methodologies and basis adopted by the valuer for determining the values of the properties interests are appropriate.

1.4 Unaudited Adjusted NAV

The table below shows the calculations of the Company's unaudited adjusted NAV attributable to the Shareholders as at 30 June 2023 ("**Unaudited Adjusted NAV**") per Share prepared by the management of the Group taking into account the valuation of the property interests of the Group as at 30 November 2023, and the related tax effects.

Calculation of the Unaudited Adjusted NAV per Share

	RMB' million
Unaudited NAV of the Company attributable to the Shareholders as at 30 June 2023	16,807.70
Adjusted for:	
Add: Revaluation surplus of the valuation of the property interests *(Note 1)*	1,241.88
Less: Tax as a result of the revaluation surplus of the property interest held by the Group based on the valuation as stated in the Property Valuation Report *(Note 2)*	254.42
Unaudited Adjusted NAV	17,795.16
Unaudited Adjusted NAV per Share *(Note 3):*	
In RMB	14.90
In HK$ *(Note 4)*	16.16
Cancellation Price	HK$3.50
Discount of the Cancellation Price to the Unaudited Adjusted NAV per Share	(78.34%)

Notes:

1. This represents the revaluation surplus calculated by comparing the fair value of the property interests held by the Group as set out in Appendix II to the Composite Document, including the property interests that the Group has not yet obtained title certificates, with their corresponding book values as at 30 June 2023.

2. This represents the potential PRC taxes attributable to the valuation surplus on the property interests held by the Group.

3. It is calculated based on 1,194,389,000 Shares in issue as at the Latest Practicable Date.

4. An exchange rate of HK$1: RMB0.92198, being the median exchange rate on 30 June 2023 as announced by the People's Bank of China.

1.5 Prospects of the Group

We have reviewed the 2022AR and 2023IR and noted that, being affected by a number of adverse factors such as the international trade frictions, complex geopolitical landscape and strong fluctuations in the prices of bulk commodities, the textile industry in China was confronted with a series of tough challenges, including sluggish market demands, disruptions to the supply chain, rising prices of bulk commodities as well as complexity in the international trade environment, resulting in greater pressure on the profitability of textile enterprises. Faced with the complex domestic and international environment, the business and operation of the Group were also under great pressure.

As discussed in the sub-paragraph headed "*1.1 Historical financial performance of the Group*" above, given the above challenging factors, the Group recorded net loss attributable to owners of the Company of approximately RMB1,558 million for FY2022 and RMB504 million for 6M2023, which was primarily attributable to, among others, the substantial increase in the production costs for the Group's textile products mainly due to the fluctuation on price of cotton lint, being the major raw material of the Textile Business.

As noted from the 2022AR and 2023IR, there were substantial fluctuation on cotton prices for domestic and international cotton. For FY2022, the domestic cotton (CNCotton 3128B) price in the PRC ranged between approximately RMB14,969 per ton and RMB22,843 per ton with a year-on-year increase in average price of approximately 6.4% and the international cotton price (Cotlook A(FE)) ranged between approximately 100 U.S. cents per pound and 164 U.S. cents per pound with a year-on-year increase in average price of approximately 28.5%. For 6M2023, the CNCotton 3128B price ranged between approximately RMB15,311 per ton and RMB17,280 per ton with a period-on-period decrease in average price of approximately 28.2% and the Cotlook A(FE) price ranged between 92.5 U.S. cents per pound and 100.3 U.S. cents per pound with a period-on-period decrease in average price of approximately 34.8%. According to China Cotton Association, we noted that the China's domestic cotton CNCotton 3128B prices ranged between approximately RMB16,314 per ton and RMB18,433 per ton for the second half of 2023. China Cotton Association is a non-profit federation specializing in cotton, which is voluntarily established by cotton farmers, cotton farmers' cooperative organisations, enterprises engaged in cotton production, purchase, processing and operation, cotton textile enterprises, cotton research institutes and other organs and which accepts the supervision and management of the Chinese Ministry of Civil Affairs and the professional guidance of the All-China Federation of Supply and Marketing Cooperatives.

In terms of domestic sales, the domestic economy recovery in the PRC is slower than expected. According to the data released by the National Bureau of Statistics of China in October 2023, we noted that the per capita clothing consumption expenditure of national residents was approximately RMB1,365 and RMB1,055 for 2022 and three quarters of 2023 respectively, which indicated that the weak consumer sentiment might have led to the decrease in demand of the Group's textile products. Further, as mentioned in the 2023IR, under the impact of factors such as the sluggish international trade demand and the restructuring of the global supply chain, overseas demand for textile products and apparel remained sluggish in the first half of the year. China's export of textile products and apparel for the 6M2023 was approximately US$142.7 billion, representing a period-on-period decrease of approximately 8.3%. The growth rate decreased by approximately 20.5 percentage points as compared to that for the corresponding period of 2022. As discussed with and confirmed by the management of the Group, the international trade friction which may result in additional tariff has affected the export sales of the Group's textile products. We also understood from the management of the Group that there has been a change in the supply chain landscape such as the shift of supply chain to countries such as Vietnam, Indonesia and India.

As regards the Electricity and Steam Business, we noted that this segment had recorded a declining trend on gross margin for FY2022 and 6M2023. In terms of the raw materials for the Electricity and Steam Business, during FY2022, international energy prices continued to rise in a critical and complicated international environment, causing domestic coal prices to fluctuate in tandem at high levels, which resulted in greater pressure on energy costs. According to the data released by the National Bureau of Statistics of China, during 2023, the price of domestic coal namely (i) Ordinary Mixed Coal 4500 kCal ranged from approximately RMB596 per ton to approximately RMB943 per ton, (ii) Shanxi Mixed Coal 5000 kCal ranged from approximately RMB688 per ton to approximately RMB1,075 per ton and (iii) Shanxi Superior Mixed Coal 5500 kCal ranged from approximately RMB786 per ton to approximately RMB1,225 per ton. In view of the fluctuation of the price of the aforesaid coal, which is the major raw material for the Electricity and Steam Business, the profitability of this business segment is uncertain.

Based on the above, we concur with the Board that the market landscape and business environment remain uncertain and challenging for the Group in the foreseeable future, and the Merger provides an opportunity for the Independent H Shareholders to cash out their investments in the Company and to consider other possible investment opportunities.

2. Information on the Offeror and the future intention of the Offeror

The Offeror is a company incorporated in the PRC with limited liability on 24 October 2023. The Offeror is newly incorporated by Weiqiao Chuangye for the purpose of the Merger and is an investment holding company. Ms. Zhang Xiaoqiao is the sole director of the Offeror. The business scope of the Offeror as set out in the business registration certificate including, *inter alia*, the production, sale and distribution of cotton yarn, fabric dyeing and processing, garment manufacturing, sale of metal ores and electricity and steam business.

As at the Latest Practicable Date, the Offeror did not own any Share. The Offeror is wholly owned by Weiqiao Chuangye, which is principally engaged in the processing and sales of cotton, lint cotton, cotton seed oil, fabrics, cotton yarn and print cloth, retail and distribution of cloth and supply of industrial water. Weiqiao Chuangye owns 757,869,600 Domestic Shares directly and 2,571,500 H Shares through Weiqiao Chuangye (HK), together representing approximately 63.67% of the voting interests in the Company. Mr. Zhang Bo, Ms. Zhang and Ms. Zhang Yanhong own 2,080,000 Domestic Shares, 19,260,400 Domestic Shares and 1,560,000 Domestic Shares, representing approximately 0.17%, 1.61% and 0.13% of the voting interests in the Company, respectively.

As set out in the section headed "*7. FUTURE INTENTION OF THE OFFEROR*" of the Letter from the Board, it is the intention of the Offeror that it will continue to carry on the business of the Group following the Merger. In view of the Merger, the Offeror will review the holding structure of certain business, assets, properties and operation units within the Group, and may implement changes to be determined with reference to such review to be conducted after the delisting of the Company's H Shares which the Offeror deems necessary, appropriate or convenient, which may include redeployment of fixed assets of the Group, such as the reallocation of fixed assets from the Offeror to the operating subsidiaries of the Group after completion of the Merger. As at the Latest Practicable Date, the Offeror had not formulated any concrete plans for redeployment of fixed assets of the Group. The Offeror does not intend to make any significant changes to the continued employment of the employees of the Group. Following completion of the Merger, the employment contracts of all employees of the Company will continue with the Offeror as the surviving entity. The Board is willing to cooperate with the Offeror and act in the best interests of the Company and the Shareholders as a whole.

Even if payment of Cancellation Price is to be financed by external debt financing, as described in the sub-section headed "*4. CANCELLATION PRICE – (3) Funding for the Merger*" in the Letter from the Board, the payment of interests on, repayment of or security for any liability, contingent or otherwise, in connection with such external debt financing, is not intended to depend on, to any significant extent, business of the Company.

3. Irrevocable Undertaking by Brandes Investment

On 4 December 2023, the Offeror and Weiqiao Chuangye obtained an irrevocable undertaking from Brandes Investment, which is an investment adviser with investment authority from its clients over 38,419,000 H Shares as at the Latest Practicable Date (representing approximately 9.29% of the total issued H share capital of the Company and approximately 9.35% of the total issued H Shares held by the Independent H Shareholders as at the Latest Practicable Date). Pursuant to the Irrevocable Undertaking, Brandes Investment has irrevocably undertaken, among others, that it will, and will make best efforts to request the Non-discretionary Brandes Clients to, exercise (or procure the exercise of) all voting rights attached to the IU Shares: (i) at any EGM or H Shareholders' Class Meeting, in favour of all the resolutions to approve the Merger and any matters in connection with the Merger; (ii) otherwise exercise (or, in the case of the Non-discretionary Brandes Clients, make best efforts to request the exercise of) the voting rights attached to the IU Shares in accordance with the instruction of the Offeror on any resolution which may impact on the success of the Merger; and (iii) exercise (or, in the case of the Non-discretionary Brandes Clients, make best efforts to request the exercise of) the voting rights attached to the IU Shares against any resolution which (1) might reasonably be expected to restrict, impede or delay implementation of the Merger; or (2) approves or gives effect to a proposal by a person other than the Offeror, to acquire (or have issued to it) any Shares or any assets of the Company or to privatise or delist the Company. Further details of the Irrevocable Undertaking are set out under the section headed "*5. IRREVOCABLE UNDERTAKING BY BRANDES INVESTMENT*" in the Letter from the Board.

4. Reasons for and benefits of the Merger

As stated in the Letter from the Board, the reasons and benefits of the Merger include:

– Due to the influence of the macro environment and industry development trend, the Company's performance is under pressure. Facing such challenges and uncertainties, the Company needs to implement strategic initiatives which may affect short-term financial performance. Implementation of the Merger will provide the Company with greater flexibility for long-term strategic options.

– The Company has lost its advantage as a listed platform and has limited equity financing capabilities. Since 11 March 2006, the Company has not raised any fund from the public market through the issuance of Shares, indicating an apparent limitation in its ability to raise funds from the stock market. After the completion of the Merger, the H Shares will be delisted from the Stock Exchange, which may help the Company save costs related to compliance and maintaining its listed status.

– The Merger provides an excellent exit opportunity for H Shareholders to sell illiquid H Shares at an attractive premium over the historical trading price of the Shares.

As analysed in the section headed "*1. Information and prospects of the Group*" in this letter, the Group performed poorly during FY2022 and 6M2023 due to the impact of international trade frictions, complex geopolitical landscape and strong fluctuations in prices of raw materials, the Group recorded net losses attributable to owners of the Company of approximately RMB1,558 million for FY2022 and approximately RMB504 million for 6M2023. We concur with the Board that the market landscape and business environment remain uncertain and challenging for the Group.

From the Independent H Shareholders' perspective, we consider the Merger provides a special opportunity to monetise their investment in H Shares at a premium over the prevailing market prices, especially given the unsatisfactory share price performance and low liquidity of the H Shares in recent years, and may redeploy the proceeds towards other investment opportunities. Please refer to the sub-sections below headed "*5.2 Historical price performance of the H Shares*" and "*5.3 Liquidity of the H Shares*" in this letter for our further analysis in this regard.

From the Company's perspective, we have reviewed the announcements published by the Company and noted that the Group has not carried out any fundraising activities from the public equity market since 2006. Therefore, in view of such lack of public equity market utilisation, we concur with the Board that the costs and efforts required to maintain listing status of the Group may not be economically justified. Upon completion of the Merger, the Group (i) would not be subject to the requirements under Listing Rules in relation to certain corporate actions, such as connected transactions; and (ii) would reduce the ongoing costs for maintaining the listing status of the Company.

Based on the above, we consider that the Merger is in the interests of the Independent H Shareholders and the Company as a whole.

5. Analysis on the Cancellation Price

In order to assess the fairness and reasonableness of the Cancellation Price, we have considered the following principal factors:

5.1 Cancellation Price comparisons

The Cancellation Price is HK$3.50 per H Share and RMB3.180870 per Domestic Share (equivalent to the Cancellation Price of HK$3.50 per H Share based on the Exchange Rate).

The Cancellation Price per H Share represents:

(a) a premium of approximately 104.68% over the closing price per H Share of HK$1.710 on the Stock Exchange on the Last Trading Date;

(b) a premium of approximately 104.92% over the average closing price of HK$1.708 per H Share based on the daily closing prices of H Shares as quoted on the Stock Exchange for the five consecutive trading days immediately prior to and including the Last Trading Date;

(c) a premium of approximately 102.66% over the average closing price of HK$1.727 per H Share based on the daily closing prices of H Shares as quoted on the Stock Exchange for the ten consecutive trading days immediately prior to and including the Last Trading Date;

(d) a premium of approximately 142.89% over the average closing price of HK$1.441 per H Share based on the daily closing prices of H Shares as quoted on the Stock Exchange for the 60 trading days immediately prior to and including the Last Trading Date;

(e) a premium of approximately 144.93% over the average closing price of HK$1.429 per H Share based on the daily closing prices of H Shares as quoted on the Stock Exchange for the 180 trading days immediately prior to and including the Last Trading Date;

(f) a premium of approximately 2.04% over the closing price of HK$3.43 per H Share on the Stock Exchange on the Latest Practicable Date;

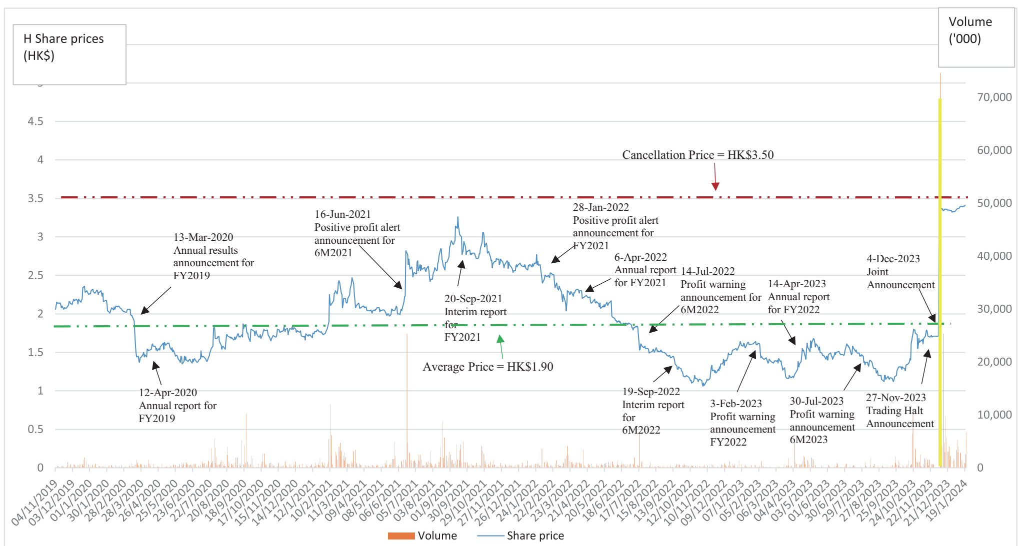
(g) a discount of approximately 78.43% to the Company's audited consolidated net asset value attributable to the Shareholders per Share of approximately RMB14.49 (equivalent to approximately HK$16.23) as at 31 December 2022, based on the exchange rate of HK$1: RMB0.89327, being the median exchange rate on 30 December 2022 as announced by the People's Bank of China;

(h) a discount of approximately 77.07% to the Company's unaudited consolidated net asset value attributable to owners of the Company per Share of approximately RMB14.07 (equivalent to approximately HK$15.26) as at 30 June 2023, based on the exchange rate of HK$1: RMB0.92198, being the median exchange rate on 30 June 2023 as announced by the People's Bank of China; and

(i) a discount of approximately 78.34% to the Unaudited Adjusted NAV per Share of approximately HK$16.16 as at 30 June 2023 prepared by the management of the Group taking into account the valuation of the property interests of the Group as at 30 November 2023, and the related tax effects.

5.2 *Historical price performance of the H Shares*

The chart below depicts the movements of the daily closing prices of the H Shares for the period from 1 November 2019 up to and including the Latest Practicable Date (the "**Review Period**") and the announcements of the Company relating to certain corporate events that took place during the Review Period. We consider that the Review Period, which covers a period of more than four years prior to the Last Trading Date and up to the Latest Practicable Date, is sufficient period of time to provide a general overview on the historical price performance of the H Shares for the purpose of this analysis:



Source: the website of the Stock Exchange and Bloomberg

As illustrated in the chart above, during the Review Period, the H Shares traded at an average of approximately HK$1.92, with the highest and lowest closing prices of the H Shares, being approximately HK$3.43 recorded on 19 January 2024 and HK$1.06 recorded on 1 November 2022, respectively. The Cancellation Price is the highest among the historical closing prices of the H Shares throughout the entire Review Period and represents (i) a premium of approximately 2.04% over the highest closing prices of the H Shares; and (ii) a premium of approximately 230.2% and 82.3% over the lowest and average closing prices of the H Shares, respectively, during the Review Period.

After trading hours on 13 March 2020, the Company published an annual results announcement for the year ended 31 December 2019 ("**FY2019**"), where the net profit of the Group decreased by approximately 66.5% to approximately RMB216 million for FY2019, which was mainly due to the sluggish market demands for cotton textile products and the intensified domestic market competition as being affected by various factors including trade frictions, resulting in the decrease in the unit selling price of the Group's cotton textile products higher than the decrease in the price of major raw materials, leading to a significant decrease in the gross profit of cotton textile products. This might be the reason for the H Shares' plummets on 16 March 2020. On 16 June 2021, the Company published the positive profit alert announcement for the six months ended 30 June 2021 stating the net profit for the period was expected to have an increase of over 200% as compared to the corresponding period of 2020, which may be a reason for a price surge to HK$2.82 on 17 June 2021. Subsequently, the H Shares experienced an upward trend until 13 September 2021 and reached the highest closing price of approximately HK$3.26. Since then, the closing price of the H Shares experienced a general declining trend until 14 July 2022, the date of the profit warning announcement for 6M2022 of the Company published. The closing price of the H Shares fluctuated between HK$1.82 and HK$1.06 from 14 July 2022 until the date of the Joint Announcement.

Trading in the H Shares was suspended with effect from 9:00 a.m. on 27 November 2023 pending the issue of the Joint Announcement. During the period from the first trading day after the publication of the Joint Announcement and up to the Latest Practicable Date (i.e. from 5 December 2023 to 19 January 2024) (the "**Post-Joint Announcement Period**"), the closing prices of the H Shares had been trading below the Cancellation Price within a narrow band of between HK$3.23 and HK$3.43. This price range is significantly above the average closing H Shares price during the period from the beginning of the Review Period and up to the Last Trading Date (i.e. from 1 November 2019 to 24 November 2023) (the "**Pre-Joint Announcement Period**") of approximately HK$1.87.

The closing prices of the H Shares during the Review Period might reflect the market perception and expectation on the Group's financial performance (it is uncertain as to whether the H Share prices will rise to a level over the Cancellation Price in the future) and the Cancellation Price is higher than closing prices of the H Shares in all trading days during the entire Review Period. From the Independent H Shareholders' perspective, the Cancellation Price represents an immediate uplift in Shareholder's value as compared to the recent H Shares prices. We are of the view that the aforesaid surge in H Shares prices during the Post-Joint Announcement Period was primarily driven by the Merger, in particular, the Cancellation Price of HK$3.50 per H Share. However, Independent H Shareholders should note that the H Shares were trading substantially below the Cancellation Price during the Pre-Joint Announcement Period and there is no assurance that the H Shares price will remain at the current level if the Merger lapses.

5.3 Liquidity of the H Shares

The following table sets out the total trading volume of the H Shares per month/period, the average daily trading volume and the percentage of such average daily trading volume to the total issued H Shares of the Company during the Review Period:

Months/Period	Total trading volume of the H Shares for the month/ period	Average daily trading volume of the H Shares for the month/ period *(Note 1)*	Percentage of average daily trading volume to the total issued H Shares *(Note 2)*
2019			
November	5,617,885	267,518	0.06%
December	11,590,568	579,528	0.14%
2020			
January	5,713,352	285,668	0.07%
February	4,108,962	205,448	0.05%
March	10,515,592	477,981	0.12%
April	6,632,401	349,074	0.08%
May	6,277,711	313,886	0.08%
June	11,882,098	565,814	0.14%
July	29,252,363	1,329,653	0.32%
August	19,629,030	934,716	0.23%
September	35,521,988	1,614,636	0.39%
October	13,926,234	773,680	0.19%
November	8,752,243	416,773	0.10%
December	7,521,312	341,878	0.08%
2021			
January	11,867,763	593,388	0.14%
February	55,823,090	3,101,283	0.75%
March	28,704,466	1,248,020	0.30%
April	6,388,804	336,253	0.08%
May	18,474,487	923,724	0.22%
June	52,370,971	2,493,856	0.60%
July	22,139,131	1,054,244	0.25%
August	41,009,024	1,864,047	0.45%
September	36,477,132	1,737,006	0.42%
October	19,428,124	1,079,340	0.26%
November	10,568,375	480,381	0.12%
December	7,608,378	345,835	0.08%

Months/Period	Total trading volume of the H Shares for the month/ period	Average daily trading volume of the H Shares for the month/ period *(Note 1)*	Percentage of average daily trading volume to the total issued H Shares *(Note 2)*
2022			
January	13,741,228	654,344	0.16%
February	9,429,403	554,671	0.13%
March	26,197,467	1,139,020	0.28%
April	11,960,148	664,453	0.16%
May	11,543,469	577,173	0.14%
June	11,985,526	570,739	0.14%
July	15,139,649	756,982	0.18%
August	5,522,597	240,113	0.06%
September	7,358,796	350,419	0.08%
October	5,354,041	267,702	0.06%
November	5,474,689	248,850	0.06%
December	10,052,257	502,613	0.12%
2023			
January	4,524,453	251,359	0.06%
February	3,634,384	181,719	0.04%
March	6,033,836	262,341	0.06%
April	20,289,305	1,193,489	0.29%
May	7,448,468	354,689	0.09%
June	6,142,916	292,520	0.07%
July	3,784,014	189,201	0.05%
August	6,163,770	267,990	0.06%
September	8,946,418	470,864	0.11%
October	31,463,918	1,573,196	0.38%
November	16,804,639	933,591	0.23%
December	181,718,466	10,689,322	2.58%
2024			
From 2 January to the Latest Practicable Date	40,745,141	2,910,367	0.70%

Source: the website of the Stock Exchange and Bloomberg

Notes:

1. Average daily trading volume is calculated by dividing the total trading volume for the month/period by the number of trading days in the respective month/period.

2. It is calculated by dividing the average daily trading volume for the month/period by the total issued H Shares as at the Latest Practicable Date (i.e. 413,619,000 H Shares).

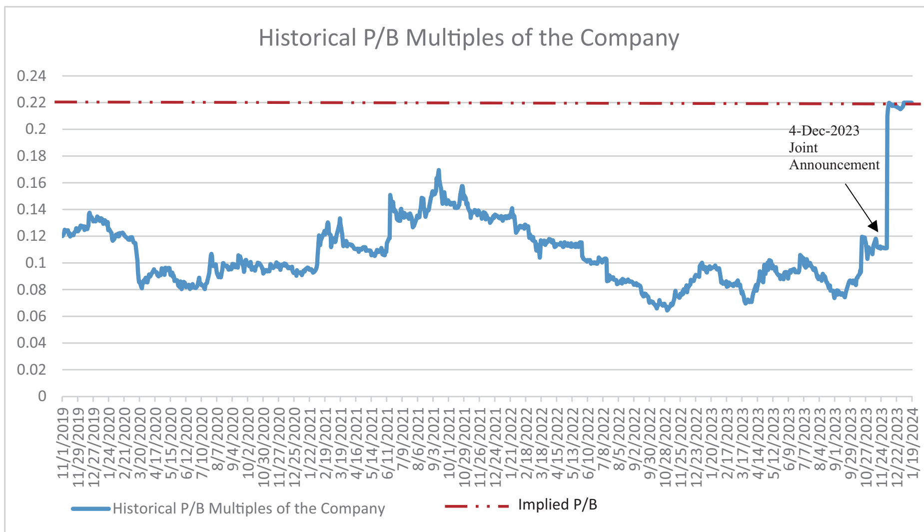
As illustrated above, the average daily trading volume of the H Shares in each month/period during the Pre-Joint Announcement Period was very thin, which ranged from approximately 181,719 H Shares to 3,101,283 H Shares, representing approximately 0.04% and 0.75% of total issued H Shares of the Company respectively. The trading volume had gradually increased after the Company announced the Merger.

On 4 December 2023, the Company and the Offeror jointly announced the Merger, and subsequently, the trading volume of the H Shares surged along with the H Share price. On the first trading day after the release of the Joint Announcement, the daily trading volume of the H Shares increased to approximately 74.6 million H Shares from approximately 0.7 million H Shares as recorded on the Last Trading Date, representing approximately 18.0% of the total issued H Shares. The increase in trading volume of the H Shares, in our view, is primarily attributable to the initial positive market reaction to the Merger. The average daily trading volume of the H Shares during the Post-Joint Announcement Period was approximately 7,176,245 Shares, representing approximately 1.73% of the total issued H Shares.

As illustrated in the data set out in the table above, the overall liquidity of the H Shares during the Pre-Joint Announcement Period was very thin. There has been surge since the release of the Joint Announcement, which we consider to be mainly attributable to the Independent H Shareholders'/investors' reaction to the Merger. Given the historical thin trading volume of the H Shares, the higher level of trading volume of the Post-Joint Announcement Period may not be sustained if the Merger lapses. It is uncertain whether there would be sufficient liquidity in the H Shares for the Independent H Shareholders to dispose a significant number of H Shares in the open market without causing an adverse impact on the market price of the H Shares. Therefore, we consider that the Merger provides an opportunity for the Independent H Shareholders, especially those with relatively sizeable shareholdings, to liquidate their investment in H Shares at a fixed price representing premium to the prevailing trading price.

5.4 Historical discount to NAV per Share

We noted the Cancellation Price represents a discount of approximately 78.34% to Unaudited Adjusted NAV per Share as at 30 June 2023. To better understand the pattern of discounts to NAV per Share, we have reviewed and set out below the historical price-to-book multiples (the "**P/B Multiple(s)**") of the Company during the Review Period.



Source: Bloomberg

Note:

Implied P/B Multiple of the Company as at 30 June 2023 is calculated by dividing the Cancellation Price of HK$3.50 per H Share by the Group's Unaudited Adjusted NAV of approximately HK$16.16 per Share as at 30 June 2023, based on the exchange rate of HK$1: RMB0.92198, being the exchange rate on 30 June 2023 as announced by the People's Bank of China.

As illustrated above, it is noted that the H Shares have been traded at persistent discounts to the NAV per Share during the Review Period, with historical P/B Multiples ranging from approximately 0.06 times to approximately 0.22 times. In particular, the H Shares are mostly traded at a substantial discount to NAV per Share during the Pre-Joint Announcement Period, with historical P/B Multiples of the Company ranged from approximately 0.06 times to approximately 0.17 times. The increase in the Company's P/B Multiples during Post-Joint Announcement Period is largely due to the surge in H Share price on 5 December 2023 after the publication of the Joint Announcement as discussed in the section headed "*5.2 Historical price performance of the H Shares*" of this letter. During the Post-Joint Announcement Period, the historical P/B Multiples of the Company ranged from approximately 0.21 times to approximately 0.22 times. The implied P/B Multiple of 0.22 times calculated based on the Cancellation Price and the Unaudited Adjusted NAV per Share as at 30 June 2023, is substantially higher than the historical P/B Multiples of the Company throughout the Pre-Joint Announcement. Based on the above, we consider the Cancellation Price representing a discount to Unaudited Adjusted NAV per Share is justifiable.

We noted that there is a substantial discount between the Cancellation Price and the Unaudited Adjusted NAV per Share. Nevertheless, despite this, the investors have been trading the H Shares at the market price, which is a transacted price between a willing seller and a willing buyer in the market and reflects an even higher discount to the NAV per Share as compared to the discount represented by the Cancellation Price against the NAV per Share over the years on an informed basis. We therefore consider that such discount is not a significant factor for the Independent H Shareholders in considering whether to invest in the H Shares and the Independent H Shareholders are more concerned with the price performance of the H Shares, future profitability and/or dividend payments of the Group as the Group has been running and will continue its normal business operation. Although the discount on the NAV of the Company is substantial, we still consider it is favorable for the Independent H Shareholders to accept this opportunity to divest their investments before the Merger lapses, for the reasons set out below:

(i) the Cancellation Price represents high premium of approximately 87.2% over the average closing price of approximately HK$1.87 per H Shares during the Pre-Joint Announcement Period and significant premium of approximately 104.68%, 111.10%, 142.89% and 144.93% over the average closing price of the H Shares on the Last Trading Date, last 30, 60 and 180 trading days, respectively;

(ii) the trading liquidity of the H Shares was extremely low during the Review Period, which may cause an adverse impact on the market price of the H Shares if the Independent H Shareholders dispose a significant number of H Shares in the open market, which may further affect the interest of the Independent H Shareholders;

(iii) during the Pre-Joint Announcement Period, the H Shares have been continuously traded in deep discounts to the NAV per Share, with a discount ranging from approximately 94.0% to 83.0%. As the H Shares are publicly and freely tradeable, the consistent trading under deep discounts to the NAV per Share suggests that the market and investors do not solely value the H Shares based on the NAV per Share but taking into account various other factors, such as the business and financial performance, future prospects and/or dividend payments of the Company; and

(iv) as confirmed by the Directors and the Offeror under the section headed "*7. FUTURE INTENTION OF THE OFFEROR*" of the Letter from the Board, the Group will continue its normal business operations after the Merger and it is not likely for the Group to liquidate its net assets and distribute them to the Independent H Shareholders.

5.5 Comparable companies analysis

In assessing the fairness and reasonableness of the Cancellation Price, we consider that it is relevant to assess the Cancellation Price by making reference to market valuation for companies listed in Hong Kong which are principally engaged in business similar to those of the Group. We have identified list of comparable companies (the "**Comparable Companies**"), which are (i) listed on the main board of the Stock Exchange; and (ii) with revenue generated from the sale of textile products accounted for not less than 50% of total revenue for the latest financial year. In view of the aforesaid criteria, the list is exhaustive and fair and representative for the purpose of our comparable analysis. We note that some of the Comparable Companies have a relatively lower market capitalisation (i.e. below HK$1 billion) as compared to the Company. Given that the Comparable Companies generally have a meaningful scale of operation in terms of revenue and meaningful size of net assets, we consider it is appropriate and reasonable to include such companies in our analysis. The price-to-sales multiples (the "**P/S Multiples**"), price-to-earning multiples (the "**P/E Multiples**") and P/B Multiples of the Comparable Companies are set out as follows:

Company name (stock code)	Principal business	Market capitalisation (as at the Last Trading Date) *(HK$ million) (Note 1)*	Revenue *(HK$ million)*	Net assets *(HK$ million)*	P/S Multiples (as at the Last Trading Date) *(approximate times) (Note 5,10)*	P/E Multiples (as at the Last Trading Date) *(approximate times) (Note 2,10)*	P/B Multiples (as at the Last Trading Date) *(approximate times) (Note 3,10)*
Pacific Textiles Holdings Limited (1382.HK)	Manufacturing and trading of textiles products, including high quality cotton and synthetic knitted fabric	2,105	5,019	2,991	0.42	7.84	0.70
TEXWINCA Holdings Limited (321.HK)	Manufacturing and sale of knitted fabric, yarn and garments	1,451	6,059	4,810	0.24	19.31	0.30
Texhong International Group Ltd (2678.HK)	Manufacturing and sales of yarns, grey fabrics, non-woven fabrics and garment fabrics	4,856	26,193	9,704	0.19	19.21	0.50
Fountain Set Holdings Ltd (420.HK)	Manufacturing and sales of dyed fabrics, yarn and garments	496	6,054	3,341	0.08	– *(Note 4)*	0.16
Kingdom Holdings Limited (528.HK)	Manufacturing of sale of linen yarn	775	2,224	1,565	0.35	4.01	0.49
Kam Hing International Holdings Limited (2307.HK)	Manufacturing and sale of knitted fabric and dyed yarn and garment products	239	4,106	1,757	0.06	– *(Note 4)*	0.14
		Minimum			0.06	4.01	0.14
		Maximum			0.42	19.31	0.70
		Average			0.22	12.59	0.38
		Median			0.21	13.52	0.40
		Implied market capitalisation *(HK$ million) (Note 6,10)*			**Implied P/S Multiple** *(approximate times) (Note 9,10)*	**Implied P/E Multiple** *(approximate times)*	**Implied P/B Multiple** *(approximate times) (Note 8,10)*
The Company (represented by the Cancellation Price)		4,180	18,237	19,049	0.23	– *(Note 7)*	0.22

Sources: the website of the Stock Exchange and Bloomberg

Notes:–

(1) The market capitalisations are derived from the total number of issued shares and the closing price quoted on the Stock Exchange as at the Last Trading Date.

(2) The P/E Multiples are derived from dividing the market capitalisation (based on the total number of issued shares and the closing price quoted on the Stock Exchange as at the Last Trading Date) by the profit attributable to shareholders of the respective Comparable Companies reported in their latest annual reports.

(3) The P/B Multiples are derived from dividing the market capitalisation (based on the total number of issued shares and the closing price quoted on the Stock Exchange as at the Last Trading Date) by the net assets attributable to shareholders of the respective Comparable Companies reported in their latest interim reports.

(4) The P/E Multiples are not applicable due to the net loss of the respective Comparable Companies reported in their latest annual reports.

(5) The P/S Multiples are derived from dividing the market capitalisation (based on the total number of issued shares and the closing price quoted on the Stock Exchange as at the Last Trading Date) by the revenue of the respective Comparable Companies reported in their latest annual reports.

(6) The implied market capitalisation of the Merger is derived from the total number of issued Shares as at the Last Trading Date (i.e. 1,194,389,000 Shares) and the Cancellation Price.

(7) The implied P/E Multiples of the Merger is not applicable as the Group recorded net loss attributable to owners of the Company for FY2022.

(8) The implied P/B Multiples of the Merger is derived from dividing the implied market capitalisation (based on the total number of issued Shares as at the Last Trading Date and the Cancellation Price) by the Unaudited Adjusted NAV of the Company as at 30 June 2023.

(9) The implied P/S Multiples of the Merger are derived from dividing the implied market capitalisation (based on the total number of issued Shares as at the Last Trading Date and the Cancellation Price) by the revenue of the Company for FY2022.

(10) The exchange rate of HK$1: RMB0.92198, being the exchange rate on 30 June 2023 as announced by the People's Bank of China is adopted for illustration purpose.

The implied P/E Multiple of the Company is not applicable as the Group recorded net loss attributable to owners of the Company for FY2022. Alternatively, we have considered P/S Multiples to be appropriate for valuing companies which have volatile earnings or loss but relatively stable revenue. The P/S Multiples of the Comparable Companies ranged from approximately 0.06 times to 0.42 times, with an average of approximately 0.22 times and median of approximately 0.21 times. The implied P/S Multiple of the Company was approximately 0.23 times which is (i) within the range of the P/S Multiples of the Comparable Companies; and (ii) slightly above both the average and median of the P/S Multiples of the Comparable Companies.

As shown in the above table, the P/B Multiples of the Comparable Companies ranged from approximately 0.14 times to approximately 0.70 times, with an average of approximately 0.38 times and median of approximately 0.40 times. The implied P/B Multiples of the Company of approximately 0.22 times is (i) within the range of the P/B Multiples of the Comparable Companies; (ii) below the average of 0.38 times and the median of 0.40 times of the P/B Multiples of the Comparable Companies; and (iii) ranks the third lowest in the list of the Comparable Companies.

Having considered that (i) the Cancellation Price represents high premium of approximately 87.2% over the average closing price of approximately HK$1.87 per H Shares during the Pre-Joint Announcement Period; and (ii) during the Pre-Joint Announcement Period, the H Shares have been continuously traded in deep discounts to the NAV per Share over the years with a discount range of approximately 94.0% to 83.0% while the H Shares are publicly and freely tradeable, such consistent deep discounts indicate the market and investors may not value the H Shares solely based on the NAV per Share but instead also take into account various other factors, such as the business and financial performance as well as the future prospects, we therefore consider the Cancellation Price is still fair and reasonable.

5.6 Privatisation precedents

We have reviewed privatisation precedents of companies listed on the Stock Exchange based on the following selection criteria: (i) the privatisation was announced since 1 June 2022 (being approximately 18 months prior to the date of Joint Announcement) and up to the date of the Joint Announcement; (ii) the privatisation only involves cash; and (iii) the privatisation has been completed or approved by disinterested shareholders or the required acceptance level was achieved. Based on our research, we have identified an exhaustive list of 17 precedent privatisations (the "**Privatisation Precedents**"). We considered that a review period of 18 months is adequate and appropriate given that the average Hang Seng Index for such review period was approximately 19,189 points which is comparable to the average Hang Seng Index of approximately 17,495 points for the month prior to the date of Announcement of the Merger which may reflect a relatively similar market sentiment and the sample size of 17 Privatisation Precedents was sufficient and reasonable for our review purpose. In view of the aforesaid criteria, we consider the list to be exhaustive and fair and representative for the purpose of our comparable analysis. Although the Privatisation Precedents are engaged in different businesses, we consider the Privatisation Precedents are relevant reference for our analysis on the fairness and reasonableness of the Cancellation Price given that the Privatisation Precedents would provide us with the recent and relevant information to demonstrate the pricing of successful privatisation of listed companies in Hong Kong. We consider that the Privatisation Precedents are fair, representative and exhaustive samples for our assessment of the Cancellation Price for illustrative purpose.

The table below illustrates the premiums/discounts of the cancellation/offer price offered by the Privatisation Precedents over/to the respective last trading day and respective last 30, 60 and 180 trading days average share price prior to the last trading day as well as the reported NAV per share of the Privatisation Precedents:

Date of the first Rule 3.5/3.7 announcement	**Company (stock code)**	**Market Capitalisation** *(HK$ million)* *(Note 5)*	**Premium of cancellation/ offer price over the share price on the last trading day** *(Note 1)*	**Premium of cancellation/ offer price over 30 trading days average share price prior to the last trading day** *(Note 1)*	**Premium of cancellation/ offer price over 60 trading days average share price prior to the last trading day** *(Note 1)*	**Premium of cancellation/ offer price over 180 trading days average share price prior to the last trading day** *(Note 1)*	**Premium/ (discount) of cancellation/ offer price over/to the latest NAV/ reassessed NAV per share** *(Note 2)*
15-Sep-23	Lansen Pharmaceutical Holdings Limited (503)	755	26.76%	20.00%	15.37%	23.29%	(22.08%)
3-Sep-23	CST Group Limited (985)	484	61.29%	36.61%	(1.38%)	(33.82%)	(60.68%)
27-Jun-23	Poly Culture Group Corporation Limited (3636)	2,187	77.60%	133.10%	129.80%	138.38%	(34.00%)
27-Jun-23	Dali Foods Group Company Limited (3799)	51,353	37.87%	30.21%	21.75%	12.95%	151.68%
25-Jun-23	Yongsheng Advanced Materials Company Limited (3608) *(Note 3)*	708	58.70%	52.90%	38.50%	28.67%	(41.50%)
11-Jun-23	Mason Group Holdings Limited (273)	1,500	20.70%	19.00%	12.70%	19.00%	(60.80%)
28-May-23	Golden Eagle Retail Group Limited (3308)	11,422	63.42%	55.30%	49.89%	45.15%	(47.40%)
8-May-23	Hailan Holdings Limited (2278)	1,008	5.00%	5.00%	5.11%	12.27%	(60.19%)
29-Mar-23	Inner Mongolia Yitai Coal Co., Ltd (3948)	5,705	54.87%	67.30%	64.17%	63.25%	(6.02%)
21-Feb-23	Jiangnan Group Limited (1366)	2,447	83.49%	101.44%	99.55%	77.48%	(65.44%)
17-Feb-23	AAG Energy Holdings Limited (2686)	6,281	10.10%	10.80%	24.20%	25.90%	(27.50%)
24-Oct-22	Kingston Financial Group Limited (1031)	4,084	47.78%	39.41%	33.27%	10.99%	(80.22%)
31-Aug-22	China Binary Sale Technology Ltd (8255)	48	35.10%	28.50%	17.00%	6.90%	(35.80%)
8-Aug-22	EVOC Intelligent Technology Co Ltd (2308)	2,158	15.13%	44.63%	50.86%	47.43%	(55.41%)
5-Aug-22	Lifestyle International Holdings Ltd (1212)	7,510	62.34%	70.11%	58.66%	30.01%	(52.83%)
9-Jun-22	China Vast Industrial Urban Development Co Ltd (6166)	3,963	30.43%	31.39%	36.90%	30.66%	(41.89%)
2-Jun-22	Xiamen International Port Co Ltd (3378)	6,134	97.37%	134.13%	150.00%	158.62%	(14.77%)
	Maximum		**97.37%**	**134.13%**	**150.00%**	**158.62%**	**151.68%**
	Minimum		**5.00%**	**5.00%**	**(1.38%)**	**(33.82%)**	**(80.22%)**
	Average		**46.35%**	**51.75%**	**47.43%**	**41.01%**	**(32.64%)**
	Median		**47.78%**	**39.41%**	**36.90%**	**28.67%**	**(41.89%)**
	The Company (represented by the Cancellation Price)		**104.68%**	**111.10%**	**142.89%**	**144.93%**	**(78.34%)** *(Note 4)*

Sources: the website of the Stock Exchange and Bloomberg

Notes:

(1) Up to and including the last trading day/last full trading day/unaffected price date of the shares prior to the publication of the first announcement pursuant to Rule 3.5 or Rule 3.7 of the Takeovers Code (where applicable).

(2) Based on the latest NAV per share or re-assessed NAV per share (where applicable) extracted from the relevant scheme document/offer document of the Privatisation Precedents.

(3) Pursuant to the announcement of Yongsheng Advanced Materials Company Limited (3608.HK) dated 15 November 2023, 95.3% of the offer shares were accepted and it is pending for the compulsory acquisition to be executed. The company is expected to withdraw its listing on 24 February 2024.

(4) Calculated based on the Unaudited Adjusted NAV per Share of HK$16.16 after taking into account of the Property Valuation Report.

(5) Market capitalisation is calculated based on the offer/cancellation price of the respective companies times the total number of shares in issue as at the latest practicable date.

As shown in the table above, the premiums represented by the Cancellation Price over the Last Trading Date, 30, 60 and 180 trading days average closing prices are all within the ranges of the Privatisation Precedents. In particular, the premiums represented by the Cancellation Price over the Last Trading Date, last 30, 60 and 180 trading days average closing price of approximately 104.68%, 111.10%, 142.89% and 144.93% are (i) substantially higher than the large majority and (ii) significantly higher than the corresponding average and median premiums of the Privatisation Precedents. The comparison of the cancellation price to market prices, in our view, serves to demonstrate the premium over market prices in successful privatisations in Hong Kong in the past, i.e. how much the shareholders are being offered and the level of premium that is acceptable to shareholders in terms of historical share price ranges.

We consider the comparison of the discount to NAV per Share itself is of limited value to the Independent H Shareholders as the Privatisation Precedents are in different industries, running different types of business and facing different market conditions. For illustrative purpose only, the discount represented by the Cancellation Price to the Unaudited Adjusted NAV per Share as at 30 June 2023 of approximately 78.34% falls within the range of premium over/discount to NAV/re-assessed NAV per share of the Privatisation Precedents but close to the low-end of the range of the Privatisation Precedents and below the average and median of the Privatisation Precedents by approximately 45.70% and 36.45% respectively.

The Independent H Shareholders should note that the subject companies in the Comparable Companies and the Privatisation Precedents may have different businesses, financial aspects and prospects and different market conditions that are not exactly identical to those of the Company, therefore, the analyses should not be considered on an isolated basis but should be taken into account as a whole with other factors for the assessment of the fairness and reasonableness of the Merger.

As mentioned above, given that (i) the comparison of the cancellation price to market prices demonstrate the range of premium over market prices in successful privatisations in Hong Kong in the past; and (ii) the comparison of the discount to NAV per Share itself is of limited value to the Independent H Shareholders as the subject companies are in different industries and running different type of businesses, the Privatisation Precedents could only provide reference to the Independent H Shareholders as to the general market appetite, being the premium of the cancellation price of the subject companies of the Privatisation Precedents to their recent market price.

OPINION AND RECOMMENDATION

Having considered the principal factors and reasons above, in particular:

(i) the Cancellation Price being fair and reasonable, in particular, the Cancellation Price represents a significant premium of approximately (a) 104.68%, 111.10%, 142.89% and 144.93% over the Last Trading Date, last 30, 60 and 180 trading days average closing prices, respectively, (b) 87.2% over the average of the closing prices during the Pre-Joint Announcement Period (which is approximately four years prior to the Last Trading Date);

(ii) the premiums represented by the Cancellation Price over the Last Trading Date, 30, 60 and 180 trading days average closing prices are (a) higher than a large majority of and (b) significantly higher than the corresponding average and median premiums of the Privatisation Precedents;

(iii) the sustainability of current price level, which is attributable to the Merger, is uncertain and the price of the H Shares may fall significantly if the Merger lapses;

(iv) the trading volume of the H Shares was very thin during the Pre-Joint Announcement Period (in particular, the percentages of the monthly average daily trading volume of the H Shares to the total issued H Shares were below 0.75%), where the Independent H Shareholders may find it difficult to dispose of a large volume of H Shares in the open market without exerting downward pressure on the price level of the H Shares, therefore the Merger provide a viable alternative exit opportunity for the Independent H Shareholders, particularly for those hold a large volume of H Shares, to immediately realise their investments in the Company;

(v) despite the discount to the Unaudited Adjusted NAV of approximately 78.34%, taking into account our analysis as set out in the sub-section headed "*5.4 Historical discount to NAV per Share*", we consider the Cancellation Price still to be fair and reasonable;

(vi) the Group recorded substantial net loss attributable to owners of the Company for FY2022 and 6M2023, despite the Group's total revenue maintained at a relatively stable level for FY2021, FY2022 and 6M2023, the Group's overall gross profit declined and recorded gross profit (loss) margin of approximately 8.0%, (6.1%) and 0.3% for FY2021, FY2022 and 6M2023;

(vii) the market landscape and business environment remain uncertain and challenging for the Group in foreseeable future given the uncertainties on the domestic and overseas economic environments as affected by among others, international trade frictions, complex geopolitical landscape and strong fluctuations in the prices of raw materials; and

(viii) pursuant to Rule 31.1 of the Takeovers Code, the likelihood of another proposal by Weiqiao Chuangye or any parties acting in concert with it to privatise the Company within the next 12 months is remote,

we are of the opinion that the terms of the Merger are fair and reasonable so far as the Independent H Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend the Independent H Shareholders to vote in favour of the Merger at the EGM and the H Shareholders' Class Meeting.

We note that the H Shares have been trading at prices below, but close to, the Cancellation Price following the publication of the Joint Announcement. The Independent H Shareholders who are very risk averse may consider selling their H Shares in the market prior to the EGM and H Shareholders' Class Meeting in view of the potential decline in the prevailing market price if the Merger does not proceed. In addition, for the Independent H Shareholders who would vote in favour of the Merger, in the event the market price of the H Share price exceed the Cancellation Price and if the net proceeds from the sale of H Shares in the market exceeds the amount receivable under the Merger, such Independent H Shareholders may consider selling their H Shares in the market.

According to the Articles, any Dissenting Shareholder may request the Company and/or the Consenting Shareholders to acquire its Shares at a "fair price". Such right is not exercisable if the Merger lapses. Further details (including the criteria) of such right are set out under the sub-section headed "*3. PRINCIPAL TERMS OF THE MERGER AGREEMENT – Right of a Dissenting Shareholder*" of the Letter from the Board. The Independent H Shareholders should note that no assurance can be given as to (i) the costs that may be incurred by the Dissenting Shareholders for determining the "fair price"; (ii) any favourable results to the Dissenting Shareholders; and (iii) the time required for such process.

As different Shareholders would have different investment criteria, objectives, risk preference and tolerance level and/or circumstances, we recommend any Independent H Shareholder who may require advice in relation to any aspect of the Composite Document, or as to the action to be taken, to consult a licensed securities dealer, bank manager, solicitor, professional accountant, tax adviser or other professional advisers.

Yours faithfully,
For and on behalf of
ELSTONE CAPITAL LIMITED

Fanny Lee
Managing Director

Ms. Fanny Lee is a licensed person registered with the Securities and Futures Commission of Hong Kong and a responsible officer of Elstone Capital Limited to carry out type 6 (advising on corporate finance) regulated activity under the SFO and has over 25 years of experience in corporate finance industry.