

**SOMERLEY CAPITAL LIMITED**

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28 April 2025

To: the Independent Board Committee of Skyworth Group Limited

Dear Sirs,

**CONDITIONAL CASH OFFER BY CLSA LIMITED ON BEHALF OF
SKYWORTH GROUP LIMITED
TO BUY-BACK UP TO 350,000,000 SHARES AT HK\$3.11 PER SHARE**

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee in connection with the Offer. Details of the Offer are contained in the Offer Document dated 28 April 2025, of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Offer Document unless the context otherwise requires.

On 27 March 2025, the Board announced that the Offer would be made by CLSA Limited on behalf of the Company to buy-back for cancellation, subject to the Condition, up to the Maximum Number, being 350,000,000 Shares, representing approximately 15.67% of the issued Shares as at the Latest Practicable Date, at the price of HK\$3.11 per Share.

Based on the Maximum Number of Shares subject to the Offer and taking into account the Irrevocable Undertakings, it is expected that full acceptance of the Offer will not result in change in control of the Company and will not result in acquisition of voting rights by any Shareholder that gives rise to an obligation to make a mandatory offer in accordance with Rule 26 of the Takeovers Code.

The Offer constitutes a share buy-back by general offer by the Company pursuant to the Share Buy-backs Code. A share buy-back by general offer must be approved by a majority of the votes cast by shareholders who do not have a material interest in the Offer which is different from the interests of all other Shareholders, in attendance in person or by proxy at a general meeting of the shareholders duly convened and held to consider the Offer.

An Independent Board Committee, which comprises all the independent non-executive Directors who have no interest in the Offer other than as a Shareholder, namely Mr. Li Weibin, Mr. Cheong Ying Chew, Henry and Mr. Hung Ka Hai, Clement, has been formed to advise the



Shareholders in respect of the Offer. The Independent Board Committee has approved our appointment as the Independent Financial Adviser to advise it as regards its recommendation on the Offer.

We are not associated with the Company, or any party acting, or presumed to be acting, in concert with it and, accordingly, are considered eligible to give independent advice on the Offer. 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 or any party acting, or presumed to be acting, in concert with it. We are not aware of any relationship or interest between us and the Company or other parties that would be reasonably considered to affect our independence to act as an independent financial adviser to the Independent Board Committee in respect of the Offer.

BASIS OF OUR OPINION

In formulating our advice and recommendation, we have relied on the information and facts supplied, and the opinions expressed, by the Directors and management of the Group (“**Management**”), which we have assumed to be true, accurate and complete in all material aspects at the Latest Practicable Date. We have also assumed that all representations contained or referred to in the Offer Document were true, accurate and complete at the time they were made and remain so at the Latest Practicable Date.

We have reviewed, among other things, the Announcement, the Offer Document, the annual reports of the Company for the years ended 31 December 2022, 2023 (“**2023 Annual Report**”) and 2024 (“**2024 Annual Report**”), the property valuation report as set out in appendix IV to the Offer Document (“**Property Valuation Report**”) and the information contained in the Offer Document. The Directors have also confirmed that full acceptance of the Offer will leave the Company with sufficient net assets and working capital to support its present and planned business. We have sought and received confirmation from the Directors that no material fact has been omitted from the information supplied and opinions expressed to us by them. We consider that the information we have received is sufficient for us to reach our opinion and advice as set out in this letter. The Shareholders will be notified of any material changes to such information and representations or any change to our opinion as soon as possible in accordance with Rule 9.1 of the Takeovers Code. We have no reason to doubt the truth and accuracy of the information provided to us or to believe that any material fact has been omitted or withheld. We have not, however, conducted any independent investigation into the businesses and affairs of the Group, nor have we carried out any independent verification on the information supplied.

We have not considered the tax implications on the Qualifying Shareholders of acceptance or non-acceptance of the Offer, since these depend on their individual circumstances. Shareholders who are resident overseas or subject to overseas taxes or Hong Kong taxation on securities dealings should consider their own tax positions. If Shareholders are in any doubt on their tax position, they should consult their own professional advisers.



TERMS OF THE OFFER

1. Background of the Offer

On 27 March 2025, the Board announced that the Offer would be made by CLSA Limited on behalf of the Company to buy-back for cancellation, subject to the Condition, up to the Maximum Number, being 350,000,000 Shares, representing approximately 15.67% of the issued Shares as at the Latest Practicable Date, at the price of HK\$3.11 per Share.

The Offer is not conditional on any minimum number of Shares being tendered for acceptance or any minimum number of Shares to be bought-back under the Offer.

The Offer will be made in full compliance with the Codes.

2. Terms of the Offer

The salient terms of the Offer are as follows:

- (a) CLSA Limited will make the Offer to the Shareholders on behalf of the Company to buy-back the Shares, up to the Maximum Number, at the Offer Price;
- (b) Qualifying Shareholders may accept the Offer in respect of any number of their Shares at the Offer Price up to their entire shareholding (subject to the procedures for scaling down described under the section headed “4. Other terms of the Offer” below);
- (c) The Offer is not conditional upon a minimum number of Shares being tendered for buy-back;
- (d) All Shares validly tendered will be bought-back to the extent that the aggregate number of Shares bought-back pursuant to the Offer will not thereby exceed the Maximum Number. If the number of Shares validly tendered exceeds the Maximum Number, the number of Shares to be bought-back from each Accepting Shareholder will be reduced proportionally so that the number of Shares bought-back by the Company in aggregate is equal to the Maximum Number. Further details of the procedures for scaling down are described under the section headed “4. Other terms of the Offer” below;
- (e) A Form of Acceptance duly received by or on behalf of the Company will become irrevocable and cannot be withdrawn after the Offer has been declared unconditional unless in accordance with Rule 19.2 of the Takeovers Code;
- (f) Shares will be bought-back in cash, free of commission, levies and dealing charges, save that the amount of stamp duty due on the Shares bought-back attributable to the seller will be deducted from the amount payable to the Accepting Shareholders and will be paid by the Company on behalf of the Accepting Shareholders;



- (g) Shares bought-back will be treated as cancelled and will not be entitled to any dividend declared for any record date set subsequent to the date of their cancellation. The issued share capital of the Company shall be diminished by the nominal value of the Shares bought-back accordingly; and
- (h) Shares will be bought-back free from all liens, charges, encumbrances, equitable interests, rights of pre-emption or other third party rights of any nature. Accordingly, the submission of a Form of Acceptance by an Accepting Shareholder will be deemed to constitute a warranty by that Accepting Shareholder to CLSA Limited and the Company that the Shares are being sold free from all liens, charges, encumbrances, equitable interests, rights of pre-emption or other third party rights of any nature.

Under the Share Buy-backs Code, the Offer will need to be approved by the Shareholders in a general meeting by a majority of votes by way of poll as referred to in the section headed “3. Condition of the Offer” below.

The Company does not intend to announce, declare or pay any dividend, distribution or other return of capital or alter its dividend policy before the close of the Offer.

3. Condition of the Offer

The Offer will be conditional upon the approval by more than 50% of the votes cast by the Shareholders by way of a poll having been obtained at the SGM in respect of the Offer.

The Condition cannot be waived.

The Offer is subject to the Condition being fulfilled in full. If the resolution to approve the Offer is not passed by the Shareholders, the Offer will not proceed and will immediately lapse.

The Offer will not be conditional on any minimum number of acceptances.

If the Offer is declared unconditional, Qualifying Shareholders will be able to tender their Shares for acceptance under the Offer for a period of 14 days thereafter.

Tenders duly received by the Company and/or CLSA Limited will become irrevocable and cannot be withdrawn after the Offer has been declared unconditional, unless in accordance with Rule 19.2 of the Takeovers Code. All Shares bought-back under the Offer will be cancelled.



4. Other terms of the Offer

Qualifying Shareholders may accept the Offer in respect of some or all of their shareholding. If valid acceptances are received for the Maximum Number or fewer Shares, all Shares validly accepted will be bought-back. If valid acceptances received exceed the Maximum Number, the total number of Shares to be bought-back by the Company from each Accepting Shareholder will be determined in accordance with the following formula:

$$\frac{A}{B} \times C$$

A = 350,000,000, being the Maximum Number

B = Total number of Shares tendered by all Accepting Shareholders under the Offer

C = Total number of Shares tendered by the relevant individual Accepting Shareholder under the Offer

As a result, it is possible that not all of such Shares tendered by an Accepting Shareholder will ultimately be bought-back. The total number of Shares which will be bought-back by the Company will not exceed the Maximum Number. The decision of the Company as to any scaling down of acceptances in accordance with the above formula and as to the treatment of fractions will be conclusive and binding on all Shareholders.

The detailed terms of the Offer are set out in the Offer Document.

As at the Latest Practicable Date, save for the Irrevocable Undertakings, neither the Company nor parties acting in concert with it had received any irrevocable commitment to accept or reject the Offer.

PRINCIPAL REASONS AND FACTORS CONSIDERED

1. Information of the Group

(a) Business activities of the Group

The Group is principally engaged in manufacture and sales of smart TV, home access systems, photovoltaic products, smart white appliances, intelligent manufacturing, internet value-added services, property development, property holding, modern services and trading of other products. The Group has four business segments as follow:

- (i) the smart household appliances business focuses on the manufacture and sale of smart TV, smart white appliances and other smart appliances such as smart air conditioners, smart refrigerators, smart washing machines, smart kitchen appliances in the PRC and overseas markets, intelligent manufacturing, provision and sales of internet value-added services of Coocaa system in the PRC, among others;



- (ii) the smart systems technology business focuses on manufacture and sale of home access systems, intelligent manufacturing, automotive electronic systems, lighting products, security system and other electronic products;
- (iii) the new energy business focuses on sale and installation of distributed photovoltaic power stations in the customer-side retail sector in the PRC market for residential and commercial uses; and
- (iv) the modern services business and others, mainly include sales of properties, loan financing, leasing of properties and trading of other products, among others.

The Group's operations are in the Mainland China, Asia (other than the Mainland China), Europe, Americas, Africa and other regions, and over 50% of the Group's revenue was generated from the PRC for the years ended 31 December 2022, 2023 and 2024.

(b) Financial performance of the Group

Set out below is a summary of the financial performance of the Group for the years ended 31 December 2022, 2023 and 2024 as extracted from the 2023 Annual Report and 2024 Annual Report.

Selling and distribution expenses of RMB243 million for the year ended 31 December 2023 has been reclassified to cost of sales to conform to the presentation for the year ended 31 December 2024. The directors of the Company consider that such presentation would better reflect the financial performance and position of the Group.

	Year ended 31 December		
	2022	2023	2024
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>
Revenue			
Sales of goods	52,889	68,376	64,388
Others	<u>602</u>	<u>655</u>	<u>625</u>
Total revenue	53,491	69,031	65,013
Cost of sales	<u>(45,284)</u>	<u>(59,629)</u>	<u>(56,205)</u>
Gross profit	8,207	9,402	8,808
<i>Gross profit margin</i>	15.3%	13.6%	13.5%



	Year ended 31 December		
	2022	2023	2024
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>
Other income	1,201	1,009	1,235
Other gains and losses	44	(64)	(160)
Selling and distribution expenses	(3,439)	(3,452)	(3,749)
General and administrative expenses	(1,654)	(1,921)	(1,807)
Research and development expenses	(2,116)	(2,127)	(2,086)
Finance costs	(432)	(522)	(480)
Share of results of associates and joint venture	8	(2)	(23)
Profit before taxation	1,819	2,323	1,738
Income tax expense	(412)	(557)	(578)
Profit for the year	1,407	1,766	1,160
<i>Net profit margin</i>	<i>2.6%</i>	<i>2.6%</i>	<i>1.8%</i>
Profit for the year attributable to:			
the Shareholders	827	1,069	568
non-controlling interests	580	697	592
	<u>1,407</u>	<u>1,766</u>	<u>1,160</u>
Earnings per Share (“EPS”)			
(expressed in RMB cents)			
Basic	<u>31.97</u>	<u>43.15</u>	<u>24.59</u>
Diluted	<u>31.95</u>	<u>43.15</u>	<u>24.59</u>
Dividends for the year	69	176	Nil
Per Share	HK\$0.03	HK\$0.08	Nil



(i) *Revenue and gross profit margin*

Set out below is a summary of the Group's segmental revenue for the years ended 31 December 2022, 2023 and 2024.

	Year ended 31 December					
	2022		2023		2024	
	<i>RMB</i> <i>million</i>	<i>% to total</i> <i>revenue</i>	<i>RMB</i> <i>million</i>	<i>% to total</i> <i>revenue</i>	<i>RMB</i> <i>million</i>	<i>% to total</i> <i>revenue</i>
Revenue						
Smart household appliances business	27,544	51.5%	30,592	44.3%	33,407	51.4%
Smart systems technology business	11,933	22.3%	10,391	15.1%	8,495	13.1%
New energy business	11,934	22.3%	23,340	33.8%	20,270	31.2%
Modern services business and others	2,080	3.9%	4,708	6.8%	2,841	4.3%
Total revenue	<u>53,491</u>	<u>100%</u>	<u>69,031</u>	<u>100%</u>	<u>65,013</u>	<u>100%</u>

For the years ended 31 December 2023 versus 2022

The Group achieved a revenue of approximately RMB69,031 million for the year ended 31 December 2023, representing a growth of approximately 29.1% from that of approximately RMB53,491 million for the prior year. The smart household appliances business segment, which was the largest segment of the Group primarily covering, among others, smart TV, smart white appliances, other smart appliances and provision of internet connection services of Coocaa system, recorded a revenue growth of approximately 11.1% for the year ended 31 December 2023. Furthermore, the Group recorded a significant increase of RMB11,406 million or 95.6% in its new energy business, showing the development momentum of new energy business.

The gross profit of the Group for the year ended 31 December 2023 was approximately RMB9,402 million, representing an increase of approximately 14.6% as compared to that for the prior year. The gross profit margin of the Group decreased from approximately 15.3% for the year ended 31 December 2022 by approximately 1.7 percentage points to approximately 13.6% for the year ended 31 December 2023. As stated in the 2023 Annual Report, given the decrease in the overall shipment volume of upstream suppliers and the increase in demand for large-sized screens in the TV market, the price of TV panels continued its upward trend from the end of 2022 to the end of this year, and rising costs narrowed the gross profit margin. In addition, the new energy business is in a period of rapid growth and its gross profit margin is still lower



than that of other business segments of the Group. Its significant year-on-year growth in sales also led to a slight decrease in the overall gross profit margin of the Group.

The Group's net profit for the year ended 31 December 2023 was approximately RMB1,766 million, representing an increase of approximately 25.5% as compared to that for the prior year. The increase in the net profit was mainly due to the increase in revenue as mentioned above, and the decreases in various expenses to revenue ratio for the year ended 31 December 2023 as compared to that for the prior year, including selling and distribution expenses, general and administrative expenses and research and development expenses. The net profit margin remained stable at approximately 2.6% for the years ended 31 December 2022 and 2023.

For the years ended 31 December 2024 versus 2023

The Group achieved a revenue of approximately RMB65,013 million for the year ended 31 December 2024, representing a decrease of approximately 5.8% from that of approximately RMB69,031 million for the prior year. As disclosed in the 2024 Annual Report, the smart household appliances business segment recorded a revenue growth of approximately 9.2% for the year ended 31 December 2024, which was mainly due to (i) the increase in revenue from smart appliances business (including other business tax) of approximately 25.4% from approximately RMB7,088 million for the year ended 31 December 2023 to approximately RMB8,886 million for the year ended 31 December 2024; and (ii) the increase in revenue from smart TV products (including other business tax) of approximately 9.7%, from approximately RMB19,008 million for the year ended 31 December 2023 to approximately RMB20,844 million for the year ended 31 December 2024. Revenue from smart systems technology business for the year ended 31 December 2024 decreased by approximately 18.2% from approximately RMB10,391 million for the previous year, which was mainly as a result of the decrease in revenue from both the mainland China market and overseas markets. For the year ended 31 December 2024, the Group recorded a revenue of approximately RMB20,270 million from the new energy business, representing a decrease of approximately 13.2% as compared with RMB23,340 million recorded in the previous year, the cumulative installed capacity of photovoltaic power stations that have been built and under grid-connected operation exceeded 19.5GW. For the year ended 31 December 2024, the Group recorded a revenue of RMB2,841 million from the modern services business and others, representing a decrease of approximately 39.7% as compared to RMB4,708 million recorded in the previous year. As disclosed in the 2024 Annual Report, the construction and development business under the Group's modern services business sector was impacted by the prolonged downturn in China's real estate market, leading to impairment provisions.



The gross profit of the Group for the year ended 31 December 2024 was approximately RMB8,808 million, representing a decrease of approximately 6.3% as compared to that for the prior year. The gross profit margin of the Group remained relatively stable at approximately 13.6% and 13.5% for the year ended 31 December 2023 and 2024, respectively. As stated in the 2024 Annual Report, the narrowing profit margins of the modern services business adversely affected the Group's overall gross profit. Despite this, the Group's smart household appliances business improved its gross profit by appropriately reducing OEM operations and focusing on the sales of its own brand and premium product market. Additionally, the new energy business introduced more financing partners, coupled with the continued decline in the cost of key raw materials, which also positively contributed to the improvement in gross profit margin.

The Group's net profit for the year ended 31 December 2024 was approximately RMB1,160 million, representing a decrease of approximately 34.3% as compared to that for the prior year. The decrease in the net profit was mainly due to the decrease in revenue as mentioned above, and the increase in various expenses to revenue ratio for the year ended 31 December 2024 as compared to that for the prior year, including selling and distribution expenses and research and development expenses. As a result of the foregoing, the net profit margin decreased from approximately 2.6% for the years ended 31 December 2023 to approximately 1.8% for the year ended 31 December 2024.

(ii) Dividends

Recent interim and final dividends per Share of the Company have been as follow:

Financial year	Interim dividend per Share	Final dividend per Share	Total	Dividend payout ratio
2024	—	—	—	—
2023	HK\$0.03	HK\$0.05	HK\$0.08	16.2%
2022	HK\$0.03	—	HK\$0.03	8.5%
2021	—	HK\$0.23	HK\$0.23	30.4%
2020	—	—	—	0.0%

As set out in the table above, the Company paid final dividend of HK\$0.23 per Share and an interim dividend of HK\$0.03 per Share for the year ended 31 December 2021 and the six months ended 30 June 2022, representing a dividend payout ratio of 30.4% and 8.5%, respectively. Total dividend for the year ended 31 December 2023 was HK\$0.08 per Share, representing a dividend payout ratio of 16.2%. The Group declared no interim nor final dividend for the year ended 31 December 2024.



(c) Financial position of the Group

Set out below is a summary of the financial position of the Group as at 31 December 2022, 2023 and 2024 as extracted from the 2023 Annual Report and the 2024 Annual Report.

	Year ended 31 December		
	2022	2023	2024
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>
Non-current assets			
Property, plant and equipment	7,888	9,576	9,989
Right-of-use assets	2,541	2,728	2,836
Investment properties	1,410	1,517	1,464
Other non-current assets	<u>6,145</u>	<u>6,663</u>	<u>5,997</u>
	<u>17,984</u>	<u>20,484</u>	<u>20,286</u>
Current assets			
Inventories and other contract costs	8,947	10,205	12,444
Stock of properties	7,349	6,033	5,699
Trade and other receivables	16,429	17,015	18,494
Pledged and restricted bank deposits	3,353	3,461	3,437
Cash and cash equivalents	9,054	9,114	8,348
Other current assets	<u>1,294</u>	<u>849</u>	<u>1,300</u>
	<u>46,426</u>	<u>46,677</u>	<u>49,722</u>
Current liabilities			
Trade and other payables	25,283	26,566	27,237
Bank borrowings	9,404	8,218	9,387
Other current liabilities	<u>840</u>	<u>644</u>	<u>710</u>
	<u>35,527</u>	<u>35,428</u>	<u>37,334</u>
Net current assets	<u>10,899</u>	<u>11,249</u>	<u>12,388</u>
Non-current liabilities			
Bank borrowings	5,853	7,097	6,918
Trade and other payables	354	1,019	1,727
Other non-current liabilities	<u>782</u>	<u>860</u>	<u>891</u>
	<u>6,989</u>	<u>8,976</u>	<u>9,536</u>
Net assets value	<u>21,894</u>	<u>22,757</u>	<u>23,138</u>



	Year ended 31 December		
	2022	2023	2024
	RMB million	RMB million	RMB million
	(audited)	(audited)	(audited)
Capital and reserves			
Share capital	266	250	235
Reserves	<u>17,601</u>	<u>17,889</u>	<u>18,003</u>
Equity attributable to the Shareholders	17,867	18,139	18,238
Non-controlling interests	<u>4,027</u>	<u>4,618</u>	<u>4,900</u>
	<u>21,894</u>	<u>22,757</u>	<u>23,138</u>

(i) Property, plant and equipment

As at 31 December 2024, the Group's property, plant and equipment ("PP&E") consisted of (i) leasehold land and buildings; (ii) construction in progress; (iii) plant and machinery; and (iv) furniture, equipment, motor vehicles and others. As at 31 December 2024, the Group's PP&E was approximately RMB9,989 million, representing an increase of approximately 4.3% from that of approximately RMB9,576 million as at 31 December 2023. The increase in the PP&E was mainly due to was mainly due to construction development of the new industrial bases.

(ii) Inventories and other contract costs

As at 31 December 2024, inventories and other contract costs of the Group amounted to approximately RMB12,444 million. The balance increased by approximately 21.9% from that of approximately RMB10,205 million as at 31 December 2023 mainly due to the expansion of new energy business and smart household appliances business which increased the Group's inventories as at 31 December 2024.

(iii) Stock of properties

As at 31 December 2024, stock of properties of the Group amounted to approximately RMB5,699 million. The balance decreased by approximately 5.5% from that of approximately RMB6,033 million as at 31 December 2023, which was primarily attributable to the write-down of stock of properties during the year.

(iv) Cash and cash equivalents

The Group had cash and cash equivalents of approximately RMB8,348 million as at 31 December 2024, representing a decrease of approximately 8.4% from that of approximately RMB9,114 million as at 31 December 2023. The decrease was mainly due to the net cash used in operating activities of approximately RMB506 million



and the net cash used in financing activities of approximately RMB263 million, partially offset by the net cash generated from investing activities of approximately RMB17 million.

(v) Bank borrowings

The current portion of bank borrowings of the Group as at 31 December 2024 was approximately RMB9,387 million, representing an increase of approximately 14.2% from that of approximately RMB8,218 million as at 31 December 2023. The non-current portion of bank borrowings of the Group as at 31 December 2024 was approximately RMB6,918 million, representing a decrease of approximately 2.5% from that as at 31 December 2023. Total borrowings of the Group increased by approximately 6.5% from approximately RMB15,315 million as at 31 December 2023 to approximately RMB16,305 million as at 31 December 2024. As a result, the Group's gearing ratio, calculated as total borrowings divided by total equity, had increased from approximately 67.3% as at 31 December 2023 to approximately 70.5% as at 31 December 2024.

(vi) Net asset value

Equity or net asset value ("NAV") of the Group attributable to the Shareholders remained relatively stable at approximately RMB18,139 million and RMB18,238 million as at 31 December 2023 and 2024, respectively. The NAV of the Group attributable to the Shareholders as at 31 December 2024, based on 2,233,267,420 Shares in issue as at the Latest Practicable Date, was approximately RMB8.2 per Share.

(d) Prospects and future intention of the Group

As mentioned in the 2024 Annual Report, in terms of business development, the Group will remain focused on high quality, innovation, and technological iteration to enhance user experience and sustain the market appeal of its competitively advantaged product categories. The Group will continue to explore more diversified business models, increase investment, and strengthen research and development to achieve further breakthroughs in smart industrialisation and product model transformation, driving the high-quality development of its overall business.

With the steady enhancement of network infrastructure and the rapid development of AI technology, cross-industry integration is accelerating. The Group has clear objectives for each of its industries, aiming to optimise resource allocation to develop a new generation of high-margin, high-value products to maintain market leadership and capture a larger share of emerging product markets. Leveraging the development of 5G home access systems, control systems and next-generation smart appliances, the Group consolidates its advantages as a developer and operator of smart home systems. Building on its leading position in the domestic smart home appliances and digital technology industries, the Group seizes opportunities presented by the global trends of digitalisation, smartisation, and low-carbonisation, integrating hardware and software to meet diverse scenario needs. Through the three key elements of "connectivity, intelligence and



ecology”, the Group is committed to building smart household appliances and Double Carbon ecological brands, deploying multi-modal AI products and technologies, and vigorously developing AI and AIGC-related application features and scenario-based smart device platforms. This expands comprehensive smart home content services, achieving seamless intelligent control for homes, offices and vehicles. The brand equity of Skyworth Group also adds significant value to newly expanded products such as shavers, driving their steady growth and inspiring the Group to continue innovating, delivering smarter and more stylish experiences to customers. In response to the rapid development of AI, the Group launches the LED-AI Super TV in 2025, embedded with the DeepSeek AI model and equipped with intelligent algorithms tailored for different office modes. This product, along with smart hotel and smart office commercial solutions centered on smart TVs as control hubs, will accelerate the application of display and commercial display products.

Against the backdrop of the global economy transitioning towards smartisation, low-carbonisation and diversification, the Group will proactively align with cutting-edge technological theories and achieve technological integration across its full range of products, striving to create leading products and solutions. Leveraging its keen market insight capabilities, the Group will continuously optimise product promotion strategies and deepen the development of new channels, further enhancing the brand presence and market influence of Skyworth.

As stated in the letter from the Board contained in the Offer Document, the business and management of the Group will remain unchanged and the Company’s listing on the Stock Exchange will be maintained upon completion of the Offer. It is intended that no major changes will be introduced to the businesses of the Group and the employment of the employees of the Group will be continued and the material fixed assets of the Group will not be redeployed as a result of the Offer.

2. Reasons for the Offer and future intention of the Group

As stated in the letter from the Board contained in the Offer Document, the price of the Shares has historically been traded at a significant discount to the Group’s NAV attributable to the Shareholders per Share. Taking the closing price of the Shares of HK\$2.7000 on the Last Trading Day as the reference date, the discounts to the Group’s NAV attributable to the Shareholders per Share of HK\$8.8187 as at 31 December 2024, being the NAV of the Group attributable to the Shareholders of approximately RMB18,238 million (equivalent to approximately HK\$19,695 million) as at 31 December 2024 divided by Shares in issue as at the Latest Practicable Date, for the below periods are as follows:

- (a) on the Latest Practicable Date: 67.12%;
- (b) on the Last Trading Day: 69.38%;
- (c) average discount to the Group’s net asset value attributable to the Shareholders per Share as at 31 December 2024 based on the average closing price of the Shares of approximately HK\$2.7463 as quoted on the Stock Exchange for the three months up to and including the Last Trading Day: 68.86%;



- (d) average discount to the Group's net asset value attributable to the Shareholders per Share as at 31 December 2024 based on the average closing price of the Shares of approximately HK\$2.9414 as quoted on the Stock Exchange for the six months up to and including the Last Trading Day: 66.65%; and
- (e) average discount to the Group's net asset value attributable to the Shareholders per Share as at 31 December 2024 based on the average closing price of the Shares of approximately HK\$2.9507 as quoted on the Stock Exchange for the twelve months up to and including the Last Trading Day: 66.54%.

The Directors (other than members of the Independent Board Committee who have expressed their view in the letter from the Independent Board Committee set out in the Offer Document) believe that the Offer provides an opportunity for the Shareholders to realise part of their investments in the Company at a premium over recent market prices, in particular, where a reference is made to the closing price of the Shares on 27 March 2025, or to increase their proportionate equity interests in the Company by retaining their shareholdings and participating in the future prospects of the Group.

The 64.73% discount to the Group's NAV attributable to the Shareholders per Share as at 31 December 2024 and the 62.48% discount to the Reassessed NAV (as defined below) as implied by the Offer Price, respectively, when compared to the historical discounts to the Group's NAV attributable to the Shareholders per Share of HK\$8.8187 as at 31 December 2024 as noted above under items (c) to (e) also represents an opportunity for the Shareholders to monetise their shareholding at a smaller discount to the Group's NAV attributable to the Shareholders per Share as at 31 December 2024. In addition, upon completion of the Offer, on a pro forma basis and on the assumptions set out in appendix III to the Offer Document, the Offer will have the effect of enhancing NAV attributable to owners of the Company per Share from approximately RMB8.16 per Share to RMB9.14 per Share (approximately 12.0%).

In light of the above, given that (i) the Group's financial performance may be uncertain in the near future, as the Group's business has been under pressure in the recent times with the net profit attributable to the Shareholders of the Group decreased by approximately 46.9% in 2024; (ii) the Offer provides an opportunity for the Shareholders either to sell their Shares at a premium over the prevailing market prices of the Shares and receive cash, or to increase their proportionate interests in the Company by retaining their holdings of the Shares and participating in the future prospects of the Company; and (iii) the Offer will enhance the earnings per Share and NAV attributable to owners of the Company per Share of the Group upon completion of the Offer, we are of the view that the Offer benefits all Shareholders.



3. Analysis of the Offer

(a) Comparison to the Offer Price

The Offer Price of HK\$3.11 per Share represents:

	Closing/average closing price of the Shares (HK\$)	Premium over the Share price
(1) The Last Trading Day	2.7000	15.19%
(2) Last 5 trading days up to and including the Last Trading Day	2.6860	15.79%
(3) Last 10 trading days up to and including the Last Trading Day	2.7070	14.89%
(4) Last 30 trading days up to and including the Last Trading Day	2.6817	15.97%
(5) The Latest Practicable Date	2.9000	7.24%
	NAV of the Group attributable to the Shareholders per Share (HK\$)	Discount to the NAV of the Group attributable to the Shareholders per Share
(6) Audited NAV of the Group attributable to the Shareholders per Share as at 31 December 2024 (Note 1)	8.8187	64.73%
(7) Adjusted NAV of the Group attributable to the Shareholders per Share as at 31 December 2024 (Note 2)	8.29	62.48%

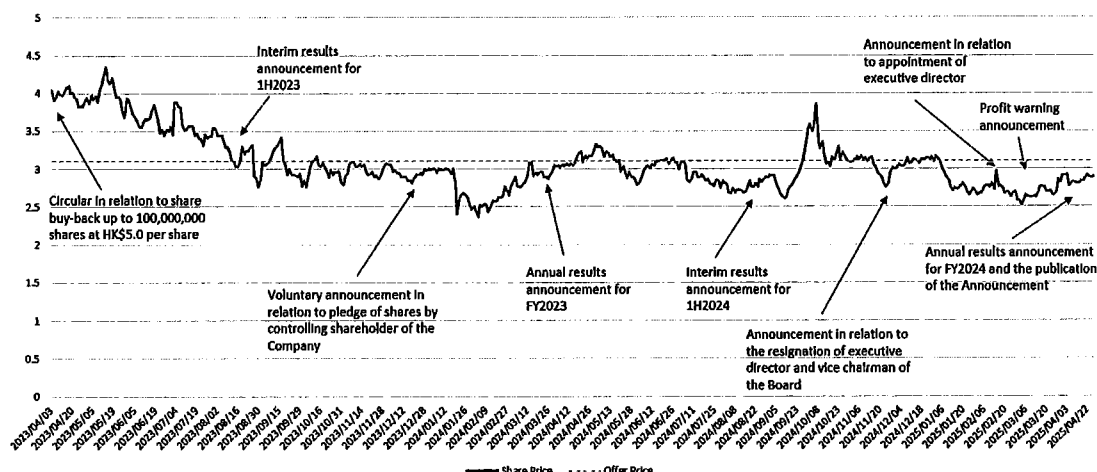
Notes:

1. Audited NAV of the Group attributable to the Shareholders per Share as at 31 December 2024 is calculated based on the audited NAV of the Group attributable to the Shareholders of RMB18,238 million (based on the exchange rate of HK\$1: RMB0.92604, the central parity rate published by the People's Bank of China on its website as at 31 December 2024 for illustrative purposes) as at 31 December 2024, and the Shares as at the Latest Practicable Date.
2. Adjusted NAV of the Group attributable to the Shareholders per Share as at 31 December 2024 is calculated based on the audited NAV of the Group attributable to the Shareholders of RMB18,238 million (based on the exchange rate of HK\$1:RMB0.92604, the central parity rate published by the People's Bank of China on its website as at 31 December 2024 for illustrative purposes) as at 31 December 2024, adjusted by (i) revaluation deficit based on the valuation of the property interests of the Group as at 28 February 2025, details of which are set out in the Property Valuation Report; and (ii) potential tax liabilities, and the Shares as at the Latest Practicable Date.



(b) Price performance of the Shares

Set out below is the movement of the closing prices of the Shares during the period from 1 April 2023 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. We consider the Review Period, which covers a period of more than 24 months, represents a sufficient period of time to provide a general overview on the recent market performance of the Shares for the purpose of this analysis.



Source: The website of the Stock Exchange

During the period from 3 April 2023 to the Last Trading Day (“**Pre-Announcement Period**”), the closing price of the Shares ranging from HK\$2.38 to HK\$4.34, with an average of approximately HK\$3.08. Out of a total of 486 trading days during the Pre-Announcement Period, there were 319 trading days when the Shares price closed below the Offer Price.

The closing price of the Shares started at HK\$4.04 on 3 April 2023 and showed resilience, maintaining levels above the Offer Price until mid-May, reaching a peak of HK\$4.34 on 15 May 2023. However, following this peak, the Share price began to decline and continued to decrease until August 2023. On 25 August 2023 (after trading hour), the Company published its interim results announcement for the six months ended 30 June 2023. The closing price of the Shares decreased by approximately 12.35% on the following trading day. The Share price continued to demonstrate a decreasing trend. On 27 December 2023, the Company published a voluntary announcement in relation to the pledge of Shares by Controlling Shareholder.



In late January 2024 to early February 2024, the closing price of the Shares has decreased from HK\$3.00 on 18 January 2024 to HK\$2.38 on 5 February 2024, being the lowest closing price during the Pre-Announcement Period. We have discussed with Management and they are not aware of any particular reason that led to the significant fluctuation of the Share closing prices during such period. Since then the Share price exhibited signs of recovery until early May, with HK\$3.33 recorded in 2 May 2024. During the period, the Company has published its annual results for the year ended 31 December 2023 on 26 March 2024 after trading hour, and the Share price increased slightly 2.0% on the following trading day. The Share price then decreased again from March 2024 to August 2024. On 27 August 2024 (after trading hour), the Company has published its interim results for the six months ended 30 June 2024 and the Share price remained relatively stable on the following trading day. The closing price of the Shares increased significantly from HK\$2.61 on 12 September 2024 to HK\$3.86 on 7 October 2024. We have discussed with Management and they are not aware of any particular reason that led to the significant fluctuation of the Share closing prices during such period.

Since then, the closing price of the Shares led another decreasing trend from during October 2024 to February 2025. On 14 February 2025 (after trading hour), the Company has published the inside information announcement regarding the profit warning, and the Share price has decreased by 7.1% and closed at HK\$2.76 per Share on the next following trading day. From 14 February 2025 to the Last Trading Day, the Share price fluctuated within a range between HK\$2.53 and HK\$2.97. On 27 March 2025 (i.e. the Last Trading Day) after trading hour, the Company has published the annual results for the year ended 31 December 2024 and the Announcement. The closing price of the Shares on the next trading day increased by 5.93% from HK\$2.70 to HK\$2.86. As at the Latest Practicable Date, the Share price closed at HK\$2.90.



(c) Trading liquidity

Set out below are the monthly total trading volumes of the Shares and the percentages of the monthly total trading volume to the Outstanding Shares and the public float of the Company for the Review Period:

		Average daily trading volume of the Shares	Percentage of the average daily trading volume of the Shares to the Outstanding Shares (Note 1)	Percentage of the average daily trading volume of the Shares to the public float of the Company (Note 2)
2023				
April	17	5,405,401	0.24%	0.58%
May	21	4,105,841	0.18%	0.44%
June	21	3,517,914	0.16%	0.38%
July	20	4,128,877	0.18%	0.45%
August	23	5,439,371	0.24%	0.59%
September	19	6,111,598	0.27%	0.66%
October	20	3,908,076	0.17%	0.42%
November	22	3,210,307	0.14%	0.35%
December	19	4,926,319	0.22%	0.53%
2024				
January	22	3,847,452	0.17%	0.42%
February	19	2,403,669	0.11%	0.26%
March	20	3,177,570	0.14%	0.34%
April	20	5,833,870	0.26%	0.63%
May	21	3,768,486	0.17%	0.41%
June	19	6,858,247	0.31%	0.74%
July	22	2,868,805	0.13%	0.31%
August	22	2,134,955	0.10%	0.23%
September	19	5,177,773	0.23%	0.56%
October	21	5,484,531	0.25%	0.59%
November	21	4,748,183	0.21%	0.51%
December	20	4,385,825	0.20%	0.47%



	Number of trading days	Average daily trading volume of the Shares	Percentage of the average daily trading volume of the Shares to the Outstanding Shares (Note 1)	Percentage of the average daily trading volume of the Shares to the public float of the Company (Note 2)
2025				
January	19	2,901,795	0.13%	0.31%
February	20	8,630,645	0.39%	0.93%
3 March to 27 March (i.e. the Last Trading Day)	19	6,106,471	0.27%	0.66%
From 28 March up to the Latest Practicable Date	18	15,610,227	0.70%	1.69%

Source: The website of the Stock Exchange

Notes:

1. The calculation is based on the average daily trading volume of the Shares divided by the Outstanding Shares at the Latest Practicable Date.
2. The calculation is based on the average daily trading volume of the Shares divided by the total number of Shares held by the public (i.e. the Shareholders other than the Company and its concert parties) as at the Latest Practicable Date.

As shown in the above table, the average daily trading volumes of the Shares represented approximately 0.10% to 0.39% of the Shares and approximately 0.23% to 0.93% of the Shares constituting the public float of the Company before the Last Trading Day. During February 2025, trading volume has been higher in general, being approximately 0.39% and 0.93% of the Shares and the public float of the Company, respectively, which may possibly due to the publication of the inside information announcement in relation to the profit warning. The publication of the Announcement heightened the trading volume to an average of approximately 15.61 million Shares being approximately 0.70% and 1.69% of the Shares and the public float of the Company, respectively, from 28 March 2025 (i.e. the first trading day following the publication of the Announcement) to the Latest Practicable Date.

Given the historically thin trading volume of the Shares, it is uncertain whether there would be sufficient liquidity in the Shares for the 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 Offer therefore represents an opportunity for the Shareholders, particularly for those who hold a large volume of Shares, to dispose of their holdings at the Offer Price if they so wish.

(d) Analysis of historical NAV of the Group

We have compared the discount of average closing Share price to consolidated NAV of the Group attributable to the Shareholders per Share during the Review Period as set out in the table below.

		Consolidated NAV of the Group attributable to the Shareholders per Share (Note 1) HK\$	Discount of average closing Share price to consolidated NAV of the Group attributable to the Shareholders per Share
Period (Note 2)	Average closing Share price HK\$		
3 April 2023 to 25 August 2023	3.68	7.70	52.23%
28 August 2023 to 26 March 2024	2.90	8.01	63.83%
27 March 2024 to 27 August 2024	2.98	8.40	64.53%
28 August 2024 to 27 March 2025 (i.e. Last Trading Day)	2.93	8.57	65.82%
28 March 2025 to the Latest Practicable Date	2.86	8.82	67.57%
Average			62.80%
Median			64.53%
Maximum			67.57%
Minimum			52.23%

Source: The website of the Stock Exchange and the Company's respective annual or interim results announcements

Notes:

1. The consolidated NAV of the Group attributable to the Shareholders per Share is calculated based on the published consolidated NAV of the Group attributable to the Shareholders in the then latest annual or interim results announcement of the Company and divided by the average number of Shares in issue during the respective period.
2. Except for 3 April 2023 to 25 August 2023, the beginning date of each of the period represents the first trading dates after the Company announced its annual or interim results.



As illustrated in the table above, the Shares have been consistently traded at discounts to the NAV of the Group attributable to the Shareholders during the Review Period. The discount of average closing Share price to consolidated NAV of the Group attributable to the Shareholders per Share during the Review Period (“**Average Discounts Range**”) ranging from 52.23% to 67.57%. As set out in sub-section “3. (a) Comparison to the Offer Price”, the Offer Price represents discounts of approximately 64.73% to NAV of the Group attributable to the Shareholders per Share as at 31 December 2024 and is within the range of the Average Discounts Range.

(e) Property Valuation and Reassessed NAV

In evaluating the Offer, we have also reviewed the adjusted consolidated NAV of the Group attributable to the Shareholders (“**Reassessed NAV**”) based on the 2024 Annual Report and the adjustment, comprising the deficit arising from property revaluation, the relevant potential PRC tax liabilities and property revaluation deficit attributable to non-controlling interests.

(i) Background of the Property Valuation

The Group is principally engaged in, among other things, property development and property holding. ValQuest Advisory (Hong Kong) Limited (“**Property Valuer**”) was engaged by the Company to derive at an appraised value of the property interests of the Group (“**Property Valuation**”) as at 28 February 2025 (“**Property Valuation Date**”). The valuation of the property interests attributable to the Group (“**Properties**”) as appraised by Property Valuer as at the Property Valuation Date was approximately RMB15,238.4 million. Details of the Property Valuation are set out in the Property Valuation Report enclosed in appendix IV to the Offer Document. The Property Valuation has been prepared in compliance with The HKIS Valuation Standards published by The Hong Kong Institute of Surveyors and the requirements set out in Chapter 5 and Practice Note 12 of the Listing Rules. We have reviewed the engagement letter between the Company and the Property Valuer, the Property Valuation Report and the relevant valuation workings of the Property Valuer and interviewed the relevant staff of the Property Valuer with particular attention to (i) the Property Valuer’s terms of engagement with the Company; (ii) the Property Valuer’s qualification and experience in relation to the preparation of the Property Valuation; and (iii) the steps and due diligence measures taken by the Property Valuer in performing the Property Valuation.

From our review of the engagement letter between the Company and the Property Valuer, we are satisfied that the terms of engagement between the Company and the Property Valuer are appropriate to the opinion the Property Valuer is required to give. The Property Valuer has confirmed that it is independent from the Company or any party acting, or presumed to be acting, in concert with any of them. We further understand that the Property Valuer is certified with the relevant professional qualifications required to perform the Property Valuation and the person-in-charge of the Property Valuation has over 20 years’ experience in conducting property valuation services to clients in Hong Kong, the PRC as well as



other overseas countries. We note that the Property Valuer mainly carried out its due diligence through on-site inspections, making enquiries and conducting its own proprietary research and has relied on publicly available information obtained through its own research as well as the financial information provided by the Management.

(ii) Property Valuation methodologies

In arriving at its opinion of value of the Properties, the Property Valuer valued the Properties by adopting the (a) direct comparison method for the Properties other than those held by the Group in Mainland China and Hong Kong for investment purpose, by making reference to comparable sale evidences available in the local market, and with adjustments to reflect the differences between the subject properties and the comparables in terms of various factors such as transaction timing, location, floor level and view etc.; (b) income capitalisation method for the Properties held by the Group in Mainland China and Hong Kong for investment purpose, by capitalising the rental income of the property interests (based on the tenancy schedules) and making provisions for the Properties' reversionary income potential, and making reference to comparable sales evidence as available in the market where applicable; and (c) depreciated replacement cost method for Properties with no readily identifiable market comparable sale or rental data, based on an estimate of the market value of the land in its existing use, plus the current cost of replacement of the improvements less allowance for physical deterioration and all relevant forms of obsolescence and optimisation.

(iii) Property Valuation basis and assumption

We note that the Properties were valued on the basis that assuming all consents, approvals and licences from relevant government authorities for the development of the Properties have been obtained, and that the design, construction and occupation of the properties are in compliance with the local planning regulations and have been approved by the relevant authorities. For those Properties which their actual use(s) do(es) not comply with those stated in the relevant title certificates (i.e., property numbers 1, 12, 16, 21, 24, 31, 38, 48, and 51), the valuation results are based on the Properties' permissible use(s) and without taking into account their existing use(s), and hence the user incompatibilities would not affect the values of these Properties. In addition, for those Properties which were either (partly) under construction or vacant sites as of the Property Valuation Date, the Property Valuer has assumed that these Properties would be developed and constructed in accordance with the approved development schemes by the relevant government authorities and provided by the Group. As discussed with the Property Valuer, for those Properties which (i) are not entitled to be transferred over the entire term of the land use rights of such properties in accordance with the respective title certificates; and (ii) are not with proper legal titles and they are only transferrable upon obtaining the relevant legal titles, their valuation are excluded from the value reported in the Property Valuation.



Direct comparison method

In arriving at the appraised value of the Properties based on direct comparison approach, the Property Valuer generally started the process by collecting and analysing recent transactions of market comparables located in the vicinity of the Properties. In particular, the Property Valuer selected market comparable transactions that (i) were located in the same district or, if not available, nearby districts; (ii) were conducted within one year; and (iii) had the same usage of the Properties. The selected market comparables were then adjusted to reflect the difference between the market comparables and the Properties in terms of, among others, transaction timing, location, floor level and view.

We have discussed with the Property Valuer on their selection criteria (“**Property Valuer Selection Criteria**”), such as location, property type and timing of transaction, to identify at least three market comparables for each appraised property, and the adjustments made including location, transaction timing, floor level, view and size etc.. We have selected and reviewed nine Property Valuation working papers, covering each valuation methodology, and we note their basis for adopting the Property Valuer Selection Criteria and we consider the Property Valuer Selection Criteria to be reasonable and relevant to the Properties and at least three market comparable properties identified fulfil the Property Valuer Selection Criteria. Overall, we are of the view the selection criteria of the comparable properties and the adjustments made by the Property Valuer are reasonable, in line with our understanding of the market practices and relevant for the purpose of establishing the appraised value of the Properties.

Income capitalisation method

In respect of the Properties valued by income capitalisation method, we have discussed with and reviewed the underlying workings from the Property Valuer. We noted that the appraised values of these Properties were derived on the basis of discounting the expected rental income from the Property Valuation Date to the land use rights expiry date of the respective properties, assuming the property is leased out. The respective expected rental income were based on the tenancy schedules formulated by the Group, taking into account the Properties’ reversionary income potential. We noted that the Property Valuer has adopted the capitalisation rate with reference to the yields generally expected by the market for comparable properties of similar use type. As advised by the Property Valuer, such reference are common benchmark for capitalisation rate in appraising property interests using income capitalisation method.



Depreciated replacement cost method

Depreciated replacement cost is based on an estimate of the market value of the land in its existing use, plus the current cost of replacement of the improvements less allowance for physical deterioration and all relevant forms of obsolescence and optimisation. In arriving at the values of the land portion, reference has been made to the sales evidence as available in the subject localities. We have discussed with and reviewed the underlying working from the Property Valuer and noted that the estimated cost of replacement was based on the average construction cost data published by several cost consultants, taking into account relevant local rules and regulations. The Property Valuer has then determined the newness rate of the Properties based on the physical conditions and economic life of the respective Properties.

Lastly, we also understand that the Property Valuer had performed cross-checking on the valuation by using the alternative valuation method where applicable. We have obtained and reviewed their working schedule and we note that the results from alternative valuation methods, if applicable, are generally in line with the appraised values.

After taken into account the above, we consider that the valuation methodology, together with the basis and assumptions, of the Property Valuation adopted by the Property Valuer as discussed above are appropriate and in line with the market practices.

(iv) Reassessed NAV

The total appraised value of the Properties as at 28 February 2025 amounted to approximately RMB16,203.1 million, representing a valuation deficit of approximately RMB1,709.0 million as compared to the book value of the Properties of approximately RMB17,912.1 million as at 31 December 2024. Taken into account (i) the reversal of potential tax liabilities in relation to the valuation deficit of approximately RMB890.4 million; and (ii) the valuation deficit shared by non-controlling interests of approximately RMB964.8 million, these give rise to a net revaluation deficit of approximately RMB1,783.4 million (“**Net Revaluation Deficit**”) over the book value of the Properties attributable to the Company as at 31 December 2024.

As discussed with the Property Valuer, we understand that (i) property numbers 4, 15, 16, 33, 36, 38, 49, 55, 61 and 62 are not entitled to be transferred over the entire term (ranging from 30 to 70 years) of the land use rights of such properties in accordance with the respective title certificates; and (ii) properties or portion(s) of property numbers 1, 6, 8, 9, 32, 35, 39, 41, 43, 51, 53, 57, 60, 74, 79 and 84 are not with proper legal titles and they are only transferrable upon obtaining the relevant legal titles, of which (a) the Company is in the course of obtaining relevant legal titles for property numbers 8, 9, 35, 41, 60, 74 and 84; and (b) the legal titles for the property numbers 1, 6, 32, 39, 43, 51, 57 and 79 are not and will not be obtainable due to historical legal defects. As disclosed in the Property Valuation Report, all



these properties are of no commercial value as of the Valuation Date and excluded from the Property Valuation. For details of the abovementioned properties, please refer to Property Valuation Report as set out in the appendix IV to the Offer Document.

The table below shows the calculations of the Reassessed NAV, after taking into account the consolidated NAV of the Group attributable to the Shareholders as at 31 December 2024 and the Net Revaluation Deficit:

	<i>RMB (million)</i>
Audited consolidated NAV of the Group attributable to the Shareholders as at 31 December 2024	18,238.00
<i>Adjustments:</i>	
Less: Property Valuation deficit attributable to the Group arising from the valuation of the Properties as at 28 February 2025 (<i>Note 1</i>)	(1,641.79)
Add: reversal of potential tax liabilities	<u>546.72</u>
The Net Revaluation Deficit	<u>(1,095.07)</u>
The Reassessed NAV	17,142.93
The Reassessed NAV per Share (<i>Note 2</i>)	RMB7.68
HK\$ equivalent	HK\$8.29
Offer Price per Share	HK\$3.11
— Discount to the Reassessed NAV	62.48%

Notes:

1. This represents the revaluation deficit arising from the shortage of market value of the property interests attributable to the Group as valued by the Property Valuer as at 28 February 2025 of approximately RMB15,238.4 million over their corresponding book values attributable to the Group of approximately RMB16,880.2 million as at 31 December 2024.
2. Based on the Reassessed NAV of approximately RMB17,142.93 million divided by the Shares as at the Latest Practicable Date.

As set out in the above table, the Offer Price of HK\$3.11 per Share represents a discount of approximately 62.48% to the Reassessed NAV of approximately HK\$8.29 per Share. As compared to the discount of 64.73% to audited consolidated NAV of the Group attributable to the Shareholders as at 31 December 2024 per Share, the difference is not significant. As such, we consider the revaluation of the Properties has no material impact to our assessment.



4. Comparable Companies analysis

The Group is principally engaged in manufacture and sales of smart TV, home access systems, photovoltaic products, smart white appliances, intelligent manufacturing, internet value-added services, property development, property holding, modern services and trading of other products. For the year ended 31 December 2024, a majority of the Group's revenue and profits were generated from multimedia business, smart systems technology business, new energy business and smart appliances business. We therefore consider that the Group should be primarily assessed on an earnings basis, for example by comparing price-to-earnings ratio as implied by the Offer Price to the comparable companies' ratios on the same basis.

Based on the above, in assessing the fairness and reasonableness of the Offer Price, we compared primarily the price-to-earnings ratio ("**P/E Ratio**") and, for reference purpose only, price-to-book ratio ("**P/B Ratio**") represented by the Offer Price against those of companies (i) listed on the Main Board of the Stock Exchange; (ii) principally engaged in manufacturing and sale of television or related display devices (i.e., the multimedia business segment of the Group) to customers in the PRC with approximately 50% or more of revenue derived from such business activities in the latest full financial year; and (iii) recorded a net profit attributable to owners of the company for their latest financial year/trailing twelve-months period results. Given the very limited number of companies satisfying the above selection criteria for our analysis, we have therefore expanded our review to companies with principal activities that are manufacturing and sale of home appliances, smart system technology, and sale and installation of distributed photovoltaic power stations (i.e., the new energy business segment of the Group), which are broadly comparable to those of the Group ("**Comparable Companies**"). We consider the Comparable Companies (to be exhaustive based on the selection criteria as set out above), in general, would serve as a fair and representative sample for the purpose of drawing a meaningful comparison to the Offer Price. Details of the Comparable Companies are set out as below:

Company name	Stock code	Principal business activities	Market capitalisation (HK\$ million)	P/E Ratio (times) (Note 1)	P/B Ratio (times) (Note 2)
Midea Group Co., Ltd.	300	principally engaged in the manufacture and distribution of household electronics.	595,327.56	14.30	2.54
Haier Smart Home Co., Ltd.	6690	principally engaged in research and development, manufacturing and sales of home appliances.	240,355.52	11.88	2.00
Hisense Home Appliances Group Co., Ltd.	921	principally engaged in the development, manufacture and distribution of home electric appliances.	38,949.02	10.77	2.33



Company name	Stock code	Principal business activities	Market capitalisation (HK\$ million)	P/E Ratio (times) (Note 1)	P/B Ratio (times) (Note 2)
TCL Electronics Holdings Limited	1070	principally engaged in the manufacture and sale of display devices.	22,310.28	12.68	1.30
Vesync Co., Ltd	2148	principally engaged in the small home appliance online market.	6,346.97	8.77	2.21
JS Global Lifestyle Company Limited (“JS Global”)	1691	principally engaged in the design, manufacture, marketing, export and distribution of electrical appliances.	6,219.48	128.75	1.50
Town Ray Holdings Limited	1692	principally engaged in the manufacture and sale of electrothermic household appliance.	929.81	8.64	2.62
Home Control International Limited	1747	principally engaged in the provision of solutions for sensing and control technologies marketed in the smart home automation, consumer electronics and set-top-box segments.	445.85	22.85	2.28
Raymond Industrial Limited	229	principally engaged in the electrical household appliance businesses.	436.15	9.65	0.65
			Maximum	128.75	2.62
			Minimum	8.64	0.65
			Median	11.88	2.21
			Average	25.37	1.94
			Excluding JS Global’s P/E ratio as an outlier (Note 3)		
			Median	11.33	
			Average	12.44	
The Company (based on the Offer price) (Note 4)			6,945.46	11.32	0.35

Source: The website of the Stock Exchange



Notes:

1. P/E Ratios of the Comparable Companies were calculated based on the disclosed profit attributable to owners of the company for the latest financial year/trailing twelve months period of the respective Comparable Company and the respective Comparable Company's market capitalisation as at the Latest Practicable Date.
2. P/B Ratios of the Comparable Companies were calculated based on the respective net asset value attributable to owners of the company as published in their respective latest financial report/results and the respective Comparable Company's market capitalisation as at the Latest Practicable Date.
3. The P/E Ratio of JS Global of approximately 128.75 times which is extraordinarily higher than those of the other Comparable Companies and therefore, is considered an outlier for the P/E Ratio analysis.
4. The implied P/E Ratio and P/B Ratio of the Company as represented by the Offer Price were calculated based on the profit for the year attributable to owners of the Company for FY2024 and the equity attributable to owners of the Company as at 31 December 2024, respectively, as derived from/disclosed in the 2024 Annual Report and the implied market capitalisation of the Company as represented by the Offer Price.

As set out in the table above, the implied P/E Ratio of the Offer Price of approximately 11.32 times is close to the average and median P/E Ratio of the Comparable Companies (excluding JS Global as an outlier) of approximately 12.44 and 11.33 times, respectively.

For reference purpose, the P/B Ratio of the Comparable Companies ranging from approximately 0.65 times to approximately 2.62 times, with an average and a median of approximately 1.94 times and approximately 2.21 times, respectively. The implied P/B Ratio of the Offer Price of approximately 0.35 times is lower than the minimum of the P/B Ratio of Comparable Companies.

In respect of a comparison to the industry peers, the implied P/E Ratio of the Offer Price, being the most recent and relevant parameter given the principal activities of the Group and the value of which is primarily assessed on an earnings basis, of 11.32 times is close to the average and median of the P/E Ratio of the Comparable Companies. This indicates the Offer Price is a fair and reasonable exit for the Shareholders from the perspective of investing in the industry that the Group engages in. It also gives Shareholders an opportunity to receive the Consideration for their Shares at a premium over the current market price of the Company and at a valuation in line with the market.

Based on the above analysis, we consider the Offer Price is reasonable as compared to the Comparable Companies.

5. Comparable Transactions analysis

We have performed an analysis of comparable buy-back transactions made by way of a general offer, excluding buy-back transactions in connection with privatisation, announced on the website of the Stock Exchange during the Review Period ("**Comparable Transactions**"). We consider that a review period covering around two years is appropriate as the Comparable Transactions are considered relevant for the purpose of assessing recent market practices in relation to share buy-back.



It should be noted that the subject companies in the Comparable Transactions can provide a general understanding of the pricing for this type of transaction in Hong Kong, but under different market conditions. The factors and considerations for each transaction affecting the premium over or discounts to the offer prices may vary in each case and could be different to the Offer. Having said that, the Comparable Transactions could still provide a meaningful analysis of the market trend of the transaction of same type over the past two years. As such, we consider that the Comparable Transactions relevant in assessing the fairness and reasonableness of the Offer Price.

For each of the Comparable Transactions identified, we compared the offer price with (a) the closing price on the last trading day prior to the issue of the respective offer announcement; and (b) the average closing price for the last 5, 10, and 30 trading days up to and including the last trading day prior to the issue of the respective announcement. Set out below is a summary of the Comparable Transactions:

Date of announcement	Company name	Stock code	Principal business activities	Percentage of shares to be purchased	Offer size HK\$ (million)	Premium of offer price over			
						The closing price on last trading day	The average closing price for last 5 trading days up to and including the last trading day	The average closing price for last 10 trading days up to and including the last trading day	The average closing price for last 30 trading days up to and including the last trading day
6 December 2024	China National Building Material Company Limited	3323	Principally engaged in production and sale of building materials	18.47%	3,392	15.1%	16.7%	19.8%	19.5%
23 October 2024	China Boki Environmental (Holding) Co., Ltd.	2377	Principally engaged in providing independent flue gas treatment service and environmental protection solution service	15.00%	181	16.5%	37.3%	52.7%	66.8%
19 July 2024	Zhihu Inc.	2390	principally engaged in the operation of online question-and-answer communities	15.90%	427	7.2%	10.0%	9.6%	14.9%
22 May 2024	Hong Kong Technology Venture Company Limited	1137	principally engaged in e-commerce business	11.25%	215	20.8%	23.0%	23.1%	33.2%
11 July 2023	Shougang Fushan Resources Group Limited	639	principally engaged in coking coal mining, production and sales of coking coal products	2.47%	300	17.7%	17.7%	20.6%	9.6%
						Average	15.5%	20.9%	25.2%
						Median	16.5%	17.7%	20.6%
						Maximum	20.8%	37.3%	52.7%
						Minimum	7.2%	10.0%	9.6%
The Offer Price				15.67%	1,089	15.2%	15.8%	14.9%	16.0%

Source: The website of the Stock Exchange



A total of five Comparable Transactions have been identified which represent an exhaustive and representative list based on our selection criteria and is considered appropriate for our evaluation. As set out in the table above, the Offer Price presents (a) premium of 15.2% over the closing Share price on the Last Trading Day; and (b) premiums of 15.8%, 14.9% and 16.0% over the average closing Share prices for the last 5, 10 and 30 trading days up to and including the Last Trading Day, respectively. The premium over the closing Share price on the Last Trading Day is in line with the average and the median of the Comparable Transactions, while the premium over the average closing Share Prices for the last 5, 10 and 30 trading days are above the lower end of those of the Comparable Transactions.

6. Effect on shareholdings

The table below shows the Company's existing shareholding structure and the shareholding structure immediately after completion of the Offer, assuming that (i) all the Shareholders will accept the Offer in full (and taking into account the fact that each of Mr. Wong, Ms. Lin, the Undertaking Directors, Ms. Qu Wanfei and Ms. Tang Yan has irrevocably undertaken to the Company that he or she will not, and will procure the holders of Shares whose Shares he or she is deemed to be interested in by virtue of Part XV of the SFO (including Target Success) not to, accept the Offer); and (ii) no additional Shares will be issued from the Latest Practicable Date up to and including the date of completion of the Offer:

Name of Shareholder	As at the Latest Practicable Date		Immediately after completion of the Offer	
	<i>Number of Shares</i>	<i>Approx. %</i>	<i>Number of Shares</i>	<i>Approx. %</i>
Wong Concert Party Group				
Target Success	1,200,958,799	53.78	1,200,958,799	63.77
Mr. Wong	37,300,000	1.67	37,300,000	1.98
Ms. Lin	9,160,382	0.41	9,160,382	0.49
Mr. Lin	3,898,719	0.17	3,898,719	0.21
Ms. Qu Wanfei	<u>150,000</u>	<u>0.01</u>	<u>150,000</u>	<u>0.01</u>
Sub-total	<u>1,251,467,900</u>	<u>56.04</u>	<u>1,251,467,900</u>	<u>66.45</u>
Undertaking Directors (apart from Mr. Lin) and Ms. Tang Yan				
Mr. Shi Chi	26,000,000	1.16	26,000,000	1.38
Ms. Tang Yan	20,336,000	0.91	20,336,000	1.08
Mr. Lam Shing Choi, Eric	3,000,000	0.13	3,000,000	0.16
Mr. Wu Qinan	3,000,000	0.13	3,000,000	0.16
Mr. Li Weibin	<u>1,000,000</u>	<u>0.04</u>	<u>1,000,000</u>	<u>0.05</u>
Sub-total	<u>53,336,000</u>	<u>2.39</u>	<u>53,336,000</u>	<u>2.83</u>



Name of Shareholder	As at the Latest Practicable Date		Immediately after completion of the Offer	
	Number of Shares	Approx. %	Number of Shares	Approx. %
Trustee of the 2020 Share Award Scheme	500,000	0.02	500,000	0.03
Trustee of the 2024 Share Award Scheme	3,056,000	0.14	3,056,000	0.16
Company and its concert parties	1,307,359,900	58.54	1,307,359,900	69.42
Independent Shareholders	<u>924,907,520</u>	<u>41.41</u>	<u>574,907,520</u>	<u>30.53</u>
Total	<u>2,233,267,420</u>	<u>100.00</u>	<u>1,883,267,420</u>	<u>100.00</u>

Note: Details of the Company's existing shareholding structure and the shareholding structure immediately after completion of the Offer are set out in the letter from the Board contained in the Offer Document.

The Offer will create the opportunity for the independent Shareholders to sell a portion of their Shares if they wish. The independent Shareholders would be able to sell 37.84% of their shareholdings. If not all independent Shareholders accept the Offer for all their Shares, individual Shareholders who do tender all their Shares would be able to sell a greater percentage.

7. Other matters in relation to the Offer

(a) Odd Lots

The Shares are currently traded in board lot of 2,000 Shares each. The Company has no intention to change the board lot size as a result of the Offer. Accepting Shareholders should note that acceptance of the Offer may result in their holding of odd lots of Shares, which cannot be traded efficiently on the Stock Exchange.

The Company has appointed Computershare Hong Kong Investor Services Limited as the designated agent to provide service, on a best effort basis, to match sales and purchases of odd lot holdings of Shares in the market for a period of six weeks from the date of completion of the Offer to enable Shareholders to dispose of their odd lots or to top up their odd lots to whole board lots. Details of such arrangement are set out in the Offer Document.

(b) Timing of the Offer

Assuming the Condition in respect of the Shareholders' approval of the Offer will be fulfilled, and the Offer will become unconditional on 23 May 2025, being the date of the SGM, the Offer will remain open for acceptance for a period of 14 days thereafter and will not be extended. As such, the closing date of the Offer is 6 June 2025, and it will not be extended.



Qualifying Shareholders who wish to accept the Offer are advised to do so after the announcement of the results of the SGM, keeping in mind that the latest time for lodging the Form of Acceptance is 4:00 p.m. on 6 June 2025.

As the number of Shares to be repurchased from each Shareholder will only be known when the Offer has closed, Shareholders should note that payments pursuant to acceptance of the Offer, subject to deduction of stamp duty due on Shares repurchased attributable to the seller, will be made no later than 7 business days following the close of the Offer.

DISCUSSION AND ANALYSIS

Subject, *inter alia*, to the Shareholders' approval, the Offer is being made for 350 million Shares, approximately 15.67% of the issued Shares as at the Latest Practicable Date. The Qualifying Shareholders have the opportunity to elect to accept the Offer in respect of any number of Shares up to their entire holding, but will be scaled down if total acceptances exceed 350 million Shares. As set out in the chart in section headed "Effect on shareholdings", the Qualifying Shareholders could sell 37.84% of their shareholdings, assuming all such Qualifying Shareholders tender all their Shares to the Offer.

(1) As regards the Offer

(a) The Offer is a valuable opportunity for Shareholders

Under a share repurchase by general offer, a company offers its shareholders the opportunity to tender some or all of their shares for repurchase and cancellation so that the number of shares the company has in issue decreases. Consequently, shareholders who do not sell will have an increased percentage interest in the company at the close of a successful repurchase even though the number of shares they hold does not change. This opportunity for Shareholders to sell or retain Shares is, in our view, a valuable one, particularly at a premium over the recent market prices.

(b) The Offer is an appropriate method to return capital to Shareholders

A share repurchase by general offer is, in our opinion, an appropriate method for companies with strong cash generating ability, ample cash balances and limited capital expenditure programmes to return capital to shareholders. Another method would be a special dividend. Some advantages of the Offer, for example, returning significant capital to the Shareholders, are common to both a share repurchase and a special dividend. However, in our view, the Offer has advantages over a special dividend. It has a beneficial impact on the pro forma EPS and, importantly, it provides greater flexibility for Shareholders. Rather than passively receiving a dividend, Shareholders have the choice of tendering their Shares to the Offer or potentially increasing their percentage holdings in the Company by retaining their Shares.



(c) The Offer is readily affordable by the Company

As set out in the 2024 Annual Report, the Group's cash and cash equivalents as at 31 December 2024 were approximately RMB8,348 million (equivalent to approximately HK\$9,014.7 million). The Offer, with offer size HK\$1,088.5 million will be easily affordable by the Company. The Group has also retained a healthy financial position, with a debt-to-equity ratio ranging from 67.3% to 70.5% for FY2022, FY2023 and FY2024. The Group has manageable debt levels and sufficient cash reserves to support its operation.

(d) Pro forma increase in EPS

On a pro forma basis and on the assumptions set out in appendix III to the Offer Document and in the section headed "Financial effects of the Offer — Earnings per Share" in the letter from the Board of the Offer Document, the basic EPS in 2024 would increase from approximately RMB24.59 cents per Share to RMB28.99 cents per Share (approximately 17.9%).

(e) Effect on net assets per Share

On a pro forma basis and on the assumptions set out in appendix III to the Offer Document, the Offer will have the effect of enhancing NAV attributable to owners of the Company per Share from approximately RMB8.16 per Share to RMB9.14 per Share (approximately 12.0%).

(2) Whether or not the Offer is fair and reasonable

(a) Earnings and margins under pressure and uncertain prospects

The Group's business has been under pressure in the recent times. The net profit attributable to the Shareholders of the Group decreased by approximately 46.9% in 2024, due to a number of factors, including the decreasing of revenue in some of the major business segments, including the smart systems technology business, new energy business and modern services business, as discussed in the section headed "1. (b) Financial performance of the Group" above.

(b) Market prices of the Shares

The market prices of the Shares are discussed in the sub-section headed "3. (b) Price performance of the Shares". The Offer Price of HK\$3.11 is higher than the prices at which the Shares have traded since early January 2025. The Offer Price reflects premiums of 15.19% to 15.97% over the average closing price for up to 30 trading days and including the Last Trading Day, which we consider a useful comparison for the Qualifying Shareholders.



The Offer Price represents a discount of approximately 64.73% to NAV of the Group attributable to the Shareholders per Share as at 31 December 2024, which is within the range of Average Discounts Range as discussed in the sub-section headed “3. (d) Analysis of historical NAV of the Group”.

(c) Comparable to industry peers and market precedents

In respect of a comparison to industry peers, the implied P/E Ratio of the Offer Price, being the most recent and relevant parameter given the principal activities of the Group the value of which is primarily assessed on an earnings basis, of 11.32 times is close to the average and median of the P/E Ratio of the Comparable Companies. This indicates the Offer Price is a fair and reasonable exit for the Shareholders from the perspective of investing in the industry that the Group engages in.

The implied P/B Ratio of the Offer Price of approximately 0.35 times is lower than the minimum of the P/B Ratio of Comparable Companies. Since the value of the Group, in our view, is primarily assessed on an earnings basis, the implied P/B Ratio of the Offer Price does not have much relevance in our assessment.

The premiums of the Offer Price over the recent market price before the announcement of the Offer are comparable to those of the Comparable Transactions.

(d) A fixed cash price exit opportunity

Although the liquidity of the Shares has been relatively high during the Review Period, for Qualifying Shareholders who wish to realise their Shares, the Offer represents an opportunity to dispose of at least part of their holdings at a fixed cash price at a premium over the recent market prices.

OPINION AND RECOMMENDATION

Based on the above principal factors and reasons, we consider that the Offer is fair and reasonable so far as the Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Shareholders to vote in favour of resolution to be proposed at the SGM to approve the Offer.

Qualifying Shareholders who are highly risk averse or who do not agree with the analysis set out in this letter, may opt to vote against the resolution to approve the Offer. They should bear in mind that if the resolution is not passed, they will lose the opportunity to realise all or part of their shareholdings in the Company, representing 37.84% of the Shares held by Qualifying Shareholders, at a premium over the prevailing market price.

We further advise the Independent Board Committee to recommend Qualifying Shareholders, particularly those who are risk averse, to accept the Offer in respect of the whole or part of their holdings. Such Qualifying Shareholders should bear in mind that they will be able to sell around 37.84% of their shareholdings. As there are no assured entitlements, a Qualifying Shareholder who accepts the Offer in respect of less than his whole holding may



find his acceptance scaled down to below these levels, depending on the response from other Qualifying Shareholders. Qualifying Shareholders who decide to accept the Offer are urged to read carefully appendix I to the Offer Document — Terms of the Offer and also the instructions on the Form of Acceptance.

Qualifying Shareholders who have confidence in the prospects of the Group may prefer not to accept the Offer and so potentially increase their percentage shareholding. Such Shareholders may note that Mr. Wong, Ms. Lin, each of the Undertaking Directors, Ms. Qu Wanfei and Ms. Tang Yan will not accept the Offer.

Following the Announcement, the Shares have traded below the Offer Price, closing at HK\$2.90 as at the Latest Practicable Date. Qualifying Shareholders who intend to realise their investments in the Company in whole or in part by accepting the Offer should monitor the Share price; if the proceeds of selling in the market (net of costs) would be higher than the net proceeds receivable under the Offer, such Qualifying Shareholders should consider selling their Shares in the market. Such Shareholders should also note that it is likely that they will only be able to dispose of part of their shareholdings in the Company and that the market price of the Shares may drop after the close of the Offer.

Yours faithfully,
for and on behalf of
SOMERLEY CAPITAL LIMITED

Calvin Leung
Director

Mr. Calvin Leung is a licensed person registered with the Securities and Futures Commission of Hong Kong and a responsible officer of Somerley Capital Limited, which is licensed under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities. He has over 20 years of experience in the corporate finance industry.