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## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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If you are in any doubt about this circular or as to the action you should take, you should consult your stockbroker, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your Shares in Veson Holdings Limited, you should at once hand this circular to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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### VESON HOLDINGS LIMITED

### 銳信控股有限公司

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 01399)**

## DISCLOSEABLE AND CONNECTED TRANSACTION ACQUISITION OF 5.68% EQUITY INTEREST IN THE TARGET COMPANY DISPOSAL OF LAND

**Independent Financial Adviser to the Independent Board Committee  
and the Independent Shareholders**



**Red Solar Capital Limited**

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A letter from the Board is set out on pages 6 to 18 of this circular. A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on pages 19 to 20 of this circular. A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 21 to 45 of this circular.

A notice convening the EGM to be held at Head Office, Scud Industrial Park, Fuzhou Pilot Free Trade Zone, No. 98 Jiangbin East Avenue, Mawei District, Fuzhou, Fujian Province, PRC on Thursday, 1 December 2022 at 10 a.m. is set out on pages EGM-1 to EGM-3 of this circular. Whether or not you intend to attend and vote at the EGM, you are requested to complete and return the accompanying proxy form to the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong in accordance with the instructions printed thereon as soon as possible and in any event not later than 48 hours before the time appointed for holding of the meeting or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM (or any adjournment thereof) should you so wish.

### PRECAUTIONARY MEASURES FOR THE EGM

Please see page 1 of this circular for measures to be implemented at the EGM to safeguard the health and safety of Shareholders and to prevent the spread of the Novel Coronavirus (COVID-19) pandemic including, without limitation:

- Compulsory temperature screening/checks and health declaration
- Compulsory wearing of your own surgical face masks
- NO distribution of refreshments, drinks, cake coupons or corporate gifts
- Be seated as indicated

Any person who does not comply with the precautionary measures may be denied entry into the EGM venue or be required to leave the EGM venue. The Company reminds all Shareholders that physical attendance in person at the EGM is **NOT** necessary for the purpose of exercising voting rights and would like to encourage Shareholders to appoint the chairman of the EGM as their proxy to vote on the relevant resolution at the EGM, instead of attending the EGM in person.

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## CONTENTS

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	<i>Page</i>
<b>PRECAUTIONARY MEASURES FOR THE EGM . . . . .</b>	1
<b>DEFINITIONS . . . . .</b>	2
<b>LETTER FROM THE BOARD . . . . .</b>	6
<b>LETTER FROM THE INDEPENDENT BOARD COMMITTEE . . . . .</b>	19
<b>LETTER FROM THE INDEPENDENT FINANCIAL ADVISER . . . . .</b>	21
<b>APPENDIX I – PROPERTY VALUATION REPORT . . . . .</b>	APP I-1
<b>APPENDIX II – SUMMARY OF ENTERPRISE VALUATION REPORT . . . . .</b>	APP II-1
<b>APPENDIX III – GENERAL INFORMATION . . . . .</b>	APP III-1
<b>NOTICE OF EGM . . . . .</b>	EGM-1

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## **PRECAUTIONARY MEASURES FOR THE EGM**

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In view of the ongoing Novel Coronavirus (COVID-19) pandemic, the Company will implement the following preventive measures at the EGM to protect the attending Shareholders, staff and other stakeholders from the risk of infection including, without limitation:

- (i) Compulsory body temperature checks will be conducted on every attendee at the entrance of the EGM venue. Any person with a body temperature of over 37.4 degrees Celsius may be denied entry into the meeting venue or be required to leave the meeting venue;
- (ii) All attendees may be asked whether (a) he/she travels outside of Hong Kong within the 14-day period immediately before the EGM; and (b) he/she is subject to any Hong Kong Government prescribed quarantine. Anyone who responds positively to any of these questions may be denied entry into the meeting venue or be required to leave the meeting venue;
- (iii) Each attendee must wear a surgical face mask inside the meeting venue at all times. Please note that NO mask will be provided at the meeting venue and attendees should wear their own masks;
- (iv) NO refreshments or drinks will be served or taken away, and NO cake coupons or corporate gifts will be distributed; and
- (v) Be seated as indicated and to maintain a safe distance between seats.

To the extent permitted under law, the Company reserves the right to deny entry into the EGM venue or require any person to leave the EGM venue in order to ensure the safety of the attendees at the EGM. Subject to the development of COVID-19, the Company may implement further changes and precautionary measures and may issue further announcement(s) on such measures as appropriate.

In the interest of all stakeholders' health and safety and consistent with recent COVID-19 guidelines issued by the Government of Hong Kong, the Company reminds Independent Shareholders that physical attendance in person at the EGM is NOT necessary for the purpose of exercising voting rights. As an alternative, by using the form of proxy attached to this circular with voting instructions inserted, Independent Shareholders may appoint the chairman of the EGM as their proxy to vote on the relevant resolution at the EGM instead of attending the EGM in person. The form of proxy should be returned to the Company's branch share registrar and transfer office in Hong Kong by the time specified, as set out in this circular.

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## DEFINITIONS

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*In this circular, unless the context otherwise specifies, the following expressions have the following meanings:*

“Acquisition”	the acquisition of 5.68% equity interest in the Target Company in accordance with the Investment Agreement
“Announcement”	the announcement dated 7 November 2022 published by the Company
“associate(s)”	has the meaning ascribed to it in the Listing Rules
“Board”	the board of Directors
“Building Ownership Rights”	have the meaning ascribed to it in the section headed “The Investment Agreement – Consideration” in the Letter from the Board of this circular
“Business Days”	any day, other than statutory holidays in the PRC, on which commercial banks in the PRC are open for business and days declared by the General Office of the State Council of the PRC as working days
“Company”	Veson Holdings Limited, a company incorporated in the Cayman Islands with limited liability and the shares of which are listed on the Stock Exchange
“Completion”	the completion of the Acquisition
“Conditions Precedent”	have the meaning ascribed to it in the section headed “The Investment Agreement – Conditions Precedent” in the Letter from the Board of this circular
“connected person(s)”	has the meaning ascribed to it in the Listing Rules
“Consideration”	has the meaning ascribed to it in the section headed “The Investment Agreement – Consideration” in the Letter from the Board of this circular
“controlling shareholder”	has the meaning ascribed to it in the Listing Rules
“Director(s)”	the director(s) of the Company
“Disposal”	the use of the Land Use Rights and Building Ownership Rights as consideration of the Acquisition

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## DEFINITIONS

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“EGM”	the extraordinary general meeting of the Company to be convened for the Independent Shareholders to consider and, if thought fit, approve the Investment Agreement and the transactions contemplated thereunder
“Fujian Penghao”	福建鵬昊投資合夥企業(有限合夥) (Fujian Penghao Investment Partnership (Limited Partnership)*), owned approximately 3.05% of the Target Company as at the Latest Practicable Date
“Fuzhou Mincheng”	福州經濟技術開發區閩誠股權投資合夥企業(有限合夥) (Fuzhou Economic and Technological Development Zone Mincheng Equity Investment Partnership (Limited Partnership)*), owned approximately 0.6% of the Target Company as at the Latest Practicable Date
“Group”	the Company and its subsidiaries from time to time
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent committee of the Board, comprising all the independent non-executive Directors, namely Mr. Heng Ja Wei Victor, Mr. Lam Yau Yiu and Mr. Cheung Wai Kwok Gary, formed for the purpose of advising the Independent Shareholders in respect of the Investment Agreement and the transactions contemplated thereunder
“Independent Enterprise Valuer”	聯合中和土地房地產資產評估有限公司 (United Zhonghe Land Real Estate Asset Appraisal Co. Ltd.*), the independent enterprise valuer appointed by the Company
“Independent Financial Adviser” or “Red Solar Capital”	Red Solar Capital Limited, a corporation licensed to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities as defined under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Investment Agreement and the transactions contemplated thereunder
“Independent Property Valuer”	正衡資產評估房地產估價(福建)有限公司 (Zhengheng Asset Appraisal Real Estate Appraisal (Fujian) Co., Ltd.*), the independent property valuer appointed by the Company
“Independent Shareholder(s)”	the Shareholders who are not required to abstain from voting at the EGM

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## DEFINITIONS

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“independent third party(ies)”	an individual(s) or a company(ies) who or which is/are not connected with (within the meaning of the Listing Rules) the Company as far as the Directors are aware after having made all reasonable enquiries
“Investment Agreement”	the investment agreement dated 7 November 2022 entered into between Scud Battery and the Target Company in relation to the Acquisition
“Land”	the entire block 2 of Scud Battery Industrial Park, No. 135 Rujiang East Road, Mawei Town, Mawei District (馬尾區馬尾鎮儒江東路135號飛毛腿電池工業園門衛2整座) in Fuzhou, the PRC
“Land Use Right Certificate”	the land use right certificate of the Land and the buildings erected on the Land
“Land Use Rights”	have the meaning ascribed to it in the section headed “The Investment Agreement – Consideration” in the Letter from the Board of this circular
“Latest Practicable Date”	9 November 2022, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Ms. Fang Ming”	Ms. Fang Ming, sister of Mr. Fang Jin
“Mr. Fang Jin”	Mr. Fang Jin, the controlling Shareholder which held approximately 50.67% of the total issued share capital of the Company as at the Latest Practicable Date and the father of Mr. Fang Yubin
“Mr. Fang Yubin”	Mr. Fang Yubin, owned the Target Company as to approximately 93.95% as at the Latest Practicable Date and is the son of Mr. Fang Jin
“Mr. Xu”	Mr. Xu Chao, owned approximately 2.4% of the Target Company as at the Latest Practicable Date
“ODM”	original design manufacturing
“Party(ies)”	parties to the Investment Agreement
“percentage ratios”	the percentage ratios calculated based on the requirements under Rule 14.07 of the Listing Rules

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## DEFINITIONS

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“PRC”	the People’s Republic of China, which shall, for the purposes of this circular, exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Processing Framework Agreement”	the framework agreement for provision of processing services dated 25 November 2021 entered into between Scud Battery as the provider of processing services and the Target Company as one of the receivers of processing services
“RMB”	Renminbi, the lawful currency of the PRC
“Scud Battery”	飛毛腿電池有限公司 (Scud Battery Co., Ltd.*), a wholly foreign owned enterprise established in the PRC and an indirect wholly owned subsidiary of the Company
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	the ordinary share(s) of the Company
“Shareholder(s)”	holder(s) of the Shares of the Company
“sq.m.”	square metre(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Company”	福建飛毛腿動力科技有限公司 (Fujian Scud Power Technology Co., Ltd.*), a limited liability company established in the PRC
“%”	per cent.

*For the purpose of this circular, unless otherwise indicated, the exchange rate of RMB1 = HK\$1.0869 has been used, where applicable, for the purpose of illustration only and does not constitute a representation that any amount has been, could have been or may be exchanged at such rate or at all.*

\* For identification purpose only

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## LETTER FROM THE BOARD

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### **VESON HOLDINGS LIMITED** **銳信控股有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 01399)**

*Executive Directors:*

Mr. Feng Ming Zhu (*Chairman*)

Ms. Lian Xiu Qin (*Chief Executive Officer*)

*Non-executive Director:*

Dr. Loke Yu

*Independent non-executive Directors:*

Mr. Heng Ja Wei Victor

Mr. Lam Yau Yiu

Mr. Cheung Wai Kwok Gary

*Registered office:*

Cricket Square, Hutchins Drive

P.O. Box 2681

Grand Cayman

KY1-1111

Cayman Islands

*Principal Place of Business in Hong Kong:*

Room 1017, 10/F Leighton Centre

77 Leighton Road

Causeway Bay

Hong Kong

14 November 2022

*To the Shareholders*

Dear Sir or Madam,

### **DISCLOSEABLE AND CONNECTED TRANSACTION** **ACQUISITION OF 5.68% EQUITY INTEREST IN THE TARGET COMPANY** **DISPOSAL OF LAND**

#### **INTRODUCTION**

References are made to the Announcement whereby the Board announced that Scud Battery, an indirect wholly-owned subsidiary of the Company, entered into the Investment Agreement with the Target Company, pursuant to which Scud Battery has conditionally agreed to acquire, and the Target Company has conditionally agreed to allot and issue to Scud Battery, 5.68% of equity interest in the Target Company, in accordance with the terms and conditions of the Investment Agreement. Immediately upon Completion, the Target Company will be indirectly owned as to 5.68% by the Company.

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## LETTER FROM THE BOARD

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The purpose of this circular is to provide you, among other things, (i) details of the Acquisition; (ii) the letter from the Independent Board Committee to the Independent Shareholders; (iii) the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Acquisition; (iv) a property valuation report in relation to the Land; and (v) the notice of the EGM.

### THE INVESTMENT AGREEMENT

- Date: 7 November 2022
- Parties: (a) Scud Battery; and  
(b) Target Company.
- The Acquisition: Scud Battery has conditionally agreed to acquire, and the Target Company has conditionally agreed to allot and issue to Scud Battery, 5.68% of equity interest in the Target Company in accordance with the terms and conditions of the Investment Agreement.
- Consideration: The consideration of the Acquisition comprise:
- (a) the land use rights of the Land (the “**Land Use Rights**”); and
  - (b) the building ownership rights of the buildings erected on the Land (the “**Building Ownership Rights**”)
- (collectively, the “**Consideration**”).

The Land has a total area of approximately 17,026.39 sq.m. and the buildings erected on the Land have a total floor area of approximately 73.07 sq.m. For further details of the Land, please refer to section headed “INFORMATION OF THE LAND” below.

The Consideration was determined after arm’s length negotiations between the Parties on normal commercial terms taking into account:

- (a) value of 5.68% equity interest in the Target Company as at 31 December 2021 in the valuation report of approximately RMB20,970,000 (equivalent to approximately HK\$22,792,293), based on an enterprise valuation report dated 7 November 2022

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## LETTER FROM THE BOARD

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prepared by the Independent Enterprise Valuer, a summary of which is set out in Appendix II to this circular; and

- (b) aggregate value of the Land Use Rights and Building Ownership Rights as at 30 September 2022 in the valuation report of approximately RMB20,940,000 (equivalent to approximately HK\$22,759,686), based on a property valuation report dated 7 November 2022 prepared by the Independent Property Valuer, the text of which are set out in Appendix I to this circular.

### Conditions Precedent:

Completion is conditional upon fulfilment or waiver (if applicable) of the following conditions precedent (the “**Conditions Precedent**”):

- (a) all approval(s) required for Scud Battery in connection with the Investment Agreement and the transactions contemplated thereunder, including approval from the Independent Shareholders at the EGM, having been obtained;
- (b) save as disclosed to Scud Battery in writing, the shares in the Target Company held by existing shareholders of the Target Company are legal, complete and not encumbered by any third-party rights or ownership disputes;
- (c) the internal and external approval(s) required for the Target Company in connection with the Investment Agreement and the transactions contemplated thereunder having been obtained;
- (d) the representations and warranties given by the Target Company in the Investment Agreement are valid, true, accurate, complete and not misleading from the date of the Investment Agreement until Completion;
- (e) the Target Company having truly, accurately and completely disclosed information of the Target Company to Scud Battery in writing;

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## LETTER FROM THE BOARD

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- (f) there being no material adverse change on the business qualifications, operations, assets, financial or other conditions or prospects of the Target Company from the date of the Investment Agreement until Completion;
- (g) all existing shareholders of the Target Company having waived their pre-emption rights in connection with the Acquisition in writing; and
- (h) Scud Battery having completed its due diligence on the Target Company and is satisfied with the relevant results.

The condition precedent set out in item (a) above is incapable of being waived. Scud Battery may by notice in writing to the Target Company waive the conditions precedent set out in items (b) to (h) above.

In the event the Conditions Precedent are not fulfilled or waived (if applicable) by 31 December 2022 (or any other date as may be agreed by the Parties), the Investment Agreement shall automatically lapse from the day after such date, and neither Party shall be entitled to any rights or interests under or in connection with the Investment Agreement and shall not be liable for any liability under or in connection with the Investment Agreement, save for any rights, interests or liabilities which have accrued before such date.

Completion:

Scud Battery shall, within 15 days of fulfilment or waiver (if applicable) of all Conditions Precedent and receipt of a land transfer notice from the Target Company, deliver the Land Use Right Certificate to the Target Company. The Target Company shall apply to the relevant land authority for amendment of registration of the Land.

The Target Company shall, within 15 Business Days of receipt of the Land Use Right Certificate, apply to the relevant regulatory authority for registration of Scud Battery as a new equity holder of the Target Company.

Immediately upon Completion, the Target Company will be owned as to 5.68% by Scud Battery.

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## LETTER FROM THE BOARD

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### INFORMATION OF THE LAND

Scud Battery acquired the right to use the Land from the Natural Resources and Planning Bureau of Mawei District in 2006. Details of the Land are as follows:

<b>Location:</b>	Entire block 2 of Scud Battery Industrial Park, No. 135 Rujiang East Road, Mawei Town, Mawei District (馬尾區馬尾鎮儒江東路135號飛毛腿電池工業園門衛2整座) in Fuzhou, the PRC
<b>Total area of the Land:</b>	Approximately 17,026.39 sq.m.
<b>Total floor area of buildings erected on the Land:</b>	Approximately 73.07 sq.m.
<b>Nature of grant:</b>	Leasehold, with a lease term of 50 years from 31 December 2006 to 30 December 2056
<b>Land use:</b>	Industrial
<b>Restriction on land use:</b>	Pursuant to a supplemental contract entered into between Scud Battery and the Natural Resources and Planning Bureau of Mawei District in December 2019, Scud Battery shall complete construction on the Land within 36 months of the contract. If the Land is not put into use within two years of the contract, the Land may be subject to resumption without any compensation.
<b>Cost of acquisition:</b>	approximately RMB3,658,927 (equivalent to approximately HK\$3,976,888)

正衡資產評估房地產估價(福建)有限公司 (Zhengheng Asset Appraisal Real Estate Appraisal (Fujian) Co., Ltd.\*), the Independent Property Valuer, valued the Land Use Rights and Building Ownership Rights as at 30 September 2022. The text of the relevant property valuation report is set out in Appendix I to this circular.

As advised by the Independent Property Valuer:

- (a) the Independent Property Valuer is a qualified real estate valuation firm in the PRC;
- (b) Ms. Yin Hui and Ms. Zou Shuihong, appraisers in charge of preparing the property valuation report, are both PRC qualified real estate valuers registered with the Ministry of Housing and Urban-Rural Development of the PRC (the “MOHU”) and are required under the MOHU rules and regulations to comply with the professional discipline and ethics regulations of the real estate appraisal industry in the PRC;

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## LETTER FROM THE BOARD

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- (c) the property valuation report has been prepared in compliance with the Code for Real Estate Appraisal (National Standard GB/T50291–2015) issued by the MOHU (the “**National Standard**”);
- (d) each of Ms. Yin Hui and Ms. Zou Shuihong has more than twenty years of real estate valuation experience in the PRC;
- (e) Ms. Yin Hui, supervisor in charge of the property valuation report, is a member of the China Institute of Real Estate Appraisers and Agents (the “**CIREA**”) and is required to comply with the professional discipline of CIREA when preparing the property valuation report;
- (f) CIREA and the Hong Kong Institute of Surveyors (the “**HKIS**”) had signed a reciprocity agreement in relation to the recognition of qualifications of PRC real estate appraisers and Hong Kong surveyors;
- (g) under the reciprocity agreement, each institute’s individual members who meet certain eligibility criteria and are nominated by the institute can apply for the other institute’s membership through an examination organized by the other institute.

On the basis of the above, the Board takes the view that (i) CIREA is a professional body of similar standing to HKIS and (ii) the National Standard is a widely accepted standard for valuing real estate in the PRC.

The Board considers that (i) the property valuation report, being a report prepared under the supervision of Miss Yin Hui, a CIREA member, has been prepared in accordance with standards comparable with the HKIS property valuation standards and (ii) the property valuation report contains all material details of the basis of valuation as required under Rule 5.05 of the Listing Rules.

The Independent Property Valuer used the cost method in its appraisal of the Land Use Rights and Building Ownership Rights.

The Independent Property Valuer used a three-step approach in its appraisal of the Land Use Rights. Firstly, the Independent Property Valuer used the benchmark land price as announced by the local government and adjusted the price taking into account factors including real estate market conditions, location, lease term and degree of development (the “**Benchmark Adjustment Method**”). Secondly, the Independent Property Valuer used three transactions of land parcels located near the Land as comparable and adjusted the price of such transactions taking into account factors including transaction date, location factors and other case specific factors to derive the value of the Land (the “**Comparable Method**”). Finally, the weighted average of the values derived from the Benchmark Adjustment Method and the Comparable Method respectively was computed as the final appraised value of the Land.

The Independent Property Valuer used a two-step approach in its appraisal of the Building Ownership Rights. The Independent Property Valuer used the value of buildings near the Land and adjusted such values taking into account construction materials used and depreciation to derive the value of the Building Ownership Rights.

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## LETTER FROM THE BOARD

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The cost method was used because the Independent Property Valuer was of the view that it was a relatively more objective method for valuing cost of land designated for industrial use. The Independent Property Valuer came to this view as there were very few industrial land transactions in the market. It was relatively easier to collect information on land acquisition cost and construction cost.

The table below shows the reconciliation of the Land Use Rights and Building Ownership Rights from the audited consolidated financial statement as at 31 December 2021 to the unaudited net asset value of the Land Use Rights and Building Ownership Rights as at 30 September 2022:

	<b>Total</b> <i>RMB</i>
Net book value as at 31 December 2021	3,014,758
<b>Less:</b> depreciation for the nine months ended 30 September 2022	<u>66,047</u>
Net book value as at 30 September 2022 (unaudited)	2,948,711
<b>Add:</b> Valuation surplus as at 30 September 2022	<u>17,991,289</u>
Valuation as at 30 September 2022 as set out in Appendix I to this circular	<u><u>20,940,000</u></u>

### FINANCIAL IMPLICATIONS OF THE ACQUISITION

Upon completion of the Acquisition, the Land Use Rights and the Building Ownership Rights will be exchanged for the equity interests in the Target Company.

At initial recognition, the net carrying amounts of the Land Use Rights and the Building Ownership Rights (the “**Net Carrying Amounts**”) will be derecognised and the fair value of the equity interests in the Target Company will be recognised and classified as financial assets at fair value through other comprehensive income (the “**Fair Value**”). The difference between the Net Carrying Amounts and the Fair Value will be recognised in profit or loss.

Any change in the Fair Value will subsequently be recognised in other comprehensive income.

### INFORMATION OF THE PARTIES

#### The Target Company

The Target Company is a motive battery developer and its main business is to provide motive batteries, energy storage control systems, energy storage power supplies and related ancillary products.

As at the date of the Investment Agreement and the Latest Practicable Date, the Target Company was owned as to approximately 93.95% by Mr. Fang Yubin, approximately 3.05% by Fujian Penghao, approximately 2.4% by Mr. Xu, and approximately 0.6% by Fuzhou Mincheng. To the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, save for the approximately 8.20% equity interest in Fujian Penghao held by Ms. Fang Ming, each of Mr. Xu, Fujian Penghao and Fuzhou Mincheng are independent third parties.

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## LETTER FROM THE BOARD

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Set out below is the audited/unaudited financial information of the Target Company prepared in accordance with PRC accounting standards:

	<b>For the six months ended 30 June 2022 (unaudited) RMB (approximately)</b>	<b>For the year ended 31 December 2021 (audited) RMB (approximately)</b>	<b>For the year ended 31 December 2020 (audited) RMB (approximately)</b>
Profit/(loss) before taxation	21,851,206 (equivalent to approximately HK\$23,750,076)	29,598,164 (equivalent to approximately HK\$32,170,244)	49,000,717 (equivalent to approximately HK\$53,258,879)
Profit/(loss) after taxation	21,851,206 (equivalent to approximately HK\$23,750,076)	29,598,164 (equivalent to approximately HK\$32,170,244)	49,000,717 (equivalent to approximately HK\$53,258,879)

The net asset value of the Target Company as at 31 December 2021 is approximately RMB256,136,383 (equivalent to approximately HK\$278,394,635).

The value of the entire equity interest in the Target Company as at 31 December 2021 in the enterprise valuation report is approximately RMB369,100,000 (equivalent to approximately HK\$401,174,790), based on an enterprise valuation report dated 7 November 2022 prepared by the Independent Enterprise Valuer, a summary of which is set out in Appendix II to this circular.

The Independent Enterprise Valuer adopted the income approach in its appraisal, as it was of the view that core assets of the Target Company were mainly offbook intangible assets such as patented technologies, R&D capabilities, marketing channels, customer resources and sales networks, which could not be reflected in the accounts and could not be accurately assessed individually. The asset-based method is a simple summation of assets and does not consider the impact of intangible assets on the overall value of the Target Company. The income approach includes not only the income from tangible assets, but also the income from intangible assets, and is therefore the more suitable approach for appraising the value of the Target Company.

The Directors are of the view that the Target Company is in the growth phase and a lot of its valuable assets which may contribute to future development, such as technologies and R&D capabilities, are intangible. As such, a simple summation of assets without considering the impact of intangible assets will not accurately reflect the value of the Target Company. The Directors agree that the income approach fairly reflects the profitability of assets of the Target Company, and is a suitable approach for appraising the value of the Target Company.

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## LETTER FROM THE BOARD

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### **The Company**

The Company is a limited liability company incorporated in the Cayman Islands and its Shares are listed on the Main Board of the Stock Exchange (stock code: 1399). The Group is principally engaged in the manufacture and sale of lithium-ion battery modules and related accessories for mobile phones, tablets, notebook computers and digital electronic appliances. The Group is also engaged in manufacture and sale of lithium-ion bare battery cells.

### **Scud Battery**

Scud Battery is an indirect wholly-owned subsidiary of the Company. Its principal business is ODM which mainly supplies lithium-ion battery modules to manufacturers of well-known telecommunication brands at home and abroad. For more information, please visit the Group's website at [www.vesonhldg.com](http://www.vesonhldg.com).

### **REASONS FOR AND BENEFITS OF THE ACQUISITION AND THE DISPOSAL**

The Directors observed a decline in growth rate of smartphone shipments in recent years. The Directors expect the trend to continue as the downward trend is attributable to market saturation, lack of technological breakthrough and increasingly budget-conscious consumers. As such, the demand for lithium-ion battery modules supplied by Scud Battery may be weakened in the future. In light of the weakened growth currently perceived for the smartphone market, the Directors are of the opinion that Scud Battery should strategically expand its business portfolio beyond lithium-ion battery modules for handheld smart devices.

The Directors observed a steep growth trajectory in electric vehicle sales, which contributed to a significant increase in demand for motive batteries, energy control storage systems and energy storage power supplies. The Directors expect that the PRC government's policies to promote green energy and lower carbon footprint, higher preference for clean energy among consumers and improved battery performance will increase consumer demand for electric vehicles including electric motorcycles and electric scooters, and the motive battery sector will enter into a phase of rapid growth. The Acquisition represents a first step by Scud Battery investing into the motive battery sector, and forms part of Scud Battery's strategic business diversification plan.

Pursuant to the Processing Framework Agreement approved by an extraordinary general meeting of the Company held on 31 December 2021, Scud Battery has been providing processing services for printed circuit boards to the Target Company since January 2022. Scud Battery and the Target Company has formed an upstream and downstream relationship and are complementary in terms of resources and demand. The Directors are of the opinion that a stable relationship and strategic partnership between Scud Battery and the Target Company will allow Scud Battery to further utilise its production capacity and benefit from synergy. The Directors expect that the Target Company will capture the strong growth momentum in the motive battery sector and has high potential of increasing its production in the near future. In addition to the potential upside in capital growth of the Target Company, the Acquisition will foster closer relationship between Scud Battery and the Target Company, and is likely to encourage the Target Company to increase its demand for processing services provided by Scud Battery. Increased demand from the Target Company stemming from strong growth in the motive battery sector will make up for the decreased demand attributed to the slowing down of the handheld smart device sector, allowing Scud Battery to put its production capacity to good use.

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## LETTER FROM THE BOARD

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Scud Battery has, from its production of lithium-ion battery modules for handheld smart devices, accumulated valuable know-how in the design and production of lithium-ion battery protection boards. Investing into the Target Company allows Scud Battery to partner closely with the Target Company in the production of motive batteries. Scud Battery can, through its provision of processing services for printed circuit boards of motive batteries, apply and improve its know-how in the motive battery sector and accumulate sector knowledge. The Directors hope that a closer partnership between Scud Battery and the Target Company can allow Scud Battery to innovate in the motive battery sector and explore future development opportunities in this sector.

The Target Company recorded net profits in the last three financial years. The Directors are of the opinion that the Target Company is highly competitive in the medium and small motive battery market and is expected to enter a phase of rapid growth in the near future. The compound growth rate of revenue, main business income and net profit of the Target Company from 2019 to 2021 is 35.12%, 29.62% and 206.75% respectively. The Target Company record a 40% drop in its profit in 2021 from that of 2020 because in 2020 it recorded non-operating income of RMB16,871,600 (including liquidated damages of RMB11,397,700 and government subsidies of RMB4,344,100). After the exclusion of these non-recurring income, the Target Company's profit for 2021 is comparable to that of 2020. Also, the Target Company increased its R&D cost by approximately 41.1% in 2021 from that of 2020. As a result, the Target Company did not record an increase in profit although its operating income increased by approximately 15% when compared with that of 2020. The Directors believe the decrease in profit of the Target Company in 2021 from that of 2020 was not due to slowdown of business growth but rather, signifies the Target Company's business development phase. The Directors are optimistic in the growth potential of the Target Company.

The Directors believe that the Target Company is of a high and long-term investment value and that the Acquisition will create a long term and mutually beneficial strategic partnership between Scud Battery and the Target Company. After the completion of the Acquisition, Scud Battery will, as a shareholder of the Target Company, be entitled to dividends declared by the Target Company. The Target Company has not declared or distributed any dividend since incorporation. The management of the Target Company were of the view that the Target Company is still in the growth phase and its retained earnings should be retained to fund costs of future R&D and potential expansion. The Directors agree with this view and believe R&D is crucial to the long-term development of the Target Company. The Directors are optimistic that the potential growth brought by R&D investment of the Target Company may bring about increased dividends in the future years as the Target Company enters the maturity phase. Any increase in value of the Target Company may also increase the share value of the Company. Whilst it is not the Group's intention to have this as a short term investment, should Scud Battery elect to dispose of its shares in the Target Company, it may do so at its discretion as there are no restrictions on the transfer of shares of the Target Company. The Directors are optimistic in the growth potential of the motive battery sector and believe this sector will become increasingly attractive to investors in the near future. On such basis and in view of the strong growth track record of the Target Company, the Directors are of the view that the Target Company will be an attractive target for investors and that shares in the Target Company are likely to be highly desirable.

Scud Battery acquired the right to use the Land from the Natural Resources and Planning Bureau of Mawei District in 2006. Scud Battery intended to use the Land for possible expansion of the Scud Industrial Park in 2019. As the existing infrastructure of the Scud Industrial Park is adequate for the business needs of the Group, the Land has not been put into use. The Directors are of the opinion that using the Land Use

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## LETTER FROM THE BOARD

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Rights and Building Ownership Rights as consideration of the Acquisition will allow the Group to make effective use of its idle resources in exchange for assets with high and long-term investment value without incurring any cash outflow.

Based on the above, the Directors consider that (i) the terms of the Investment Agreement and the transactions contemplated thereunder, including the Consideration, are fair and reasonable and on normal commercial terms and (ii) whilst the Acquisition is not in the ordinary and usual course of business of the Group, it is in the interests of the Company and the Shareholders as a whole.

None of the Directors has any material interest in the Investment Agreement and the transactions contemplated thereunder, and none of the Directors has abstained from voting on the board resolution approving the Investment Agreement and the transactions contemplated thereunder.

### LISTING RULES IMPLICATIONS

As one or more of the relevant percentage ratios (as defined under the Listing Rules) in respect of each of the Acquisition and the Disposal exceeds 5% but are all less than 25%, each of the Acquisition and the Disposal constitutes a discloseable transaction for the Company under the Listing Rules and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

As at the Latest Practicable Date, the Target Company is owned as to approximately 93.95% by Mr. Fang Yubin, who is the son of Mr. Fang Jin, the controlling shareholder of the Company, and therefore, the Target Company is a connected person of the Company under the Listing Rules. As such, each of the Acquisition and the Disposal also constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

### INDEPENDENT FINANCIAL ADVISER AND INDEPENDENT BOARD COMMITTEE

The Company has appointed Red Solar Capital as the independent financial adviser to make recommendations to the Independent Board Committee and the Independent Shareholders as to whether the terms of the Investment Agreement and the transactions contemplated thereunder are fair and reasonable, on normal commercial terms and in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

The Independent Board Committee, comprising Mr. Heng Ja Wei Victor, Mr. Lam Yau Yiu and Mr. Cheung Wai Kwok Gary, being all the independent non-executive Directors, has been established to advise the Independent Shareholders as to whether the terms of the Investment Agreement and the transactions contemplated thereunder are fair and reasonable, on normal commercial terms and in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole, after taking into account the recommendations of Red Solar Capital.

### THE EGM

The EGM will be convened for the purpose of considering and, if thought fit, approving, among other things, the Investment Agreement and the transactions contemplated thereunder.

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## **LETTER FROM THE BOARD**

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A notice convening the EGM to be held at Head Office, Scud Industrial Park, Fuzhou Pilot Free Trade Zone, No. 98 Jiangbin East Avenue, Mawei District, Fuzhou, Fujian Province, PRC, on Thursday, 1 December 2022 at 10:00 a.m. is set out on pages EGM-1 to EGM-3 of this circular. A form of proxy for the EGM is enclosed with this circular. Whether or not the Independent Shareholders are able to attend the meeting, the Independent Shareholders are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the EGM (not later than 10:00 a.m. on Tuesday, 29 November 2022) or any adjournment thereof. Completion and return of the form of proxy will not preclude the Independent Shareholders from attending and voting in person at the EGM if they so wish and in such event, the form of proxy will be deemed to be revoked.

### **CLOSURE OF REGISTER OF MEMBERS**

In order to determine the list of Shareholders who will be entitled to attend and vote at the EGM, the register of members of the Company will be closed for registration of transfer of Shares from Monday, 28 November 2022 to Thursday, 1 December 2022 (both days inclusive) during which period no transfer of Shares will be effected. Shareholders whose names appear on the register of members of the Company on Thursday, 1 December 2022 shall be entitled to attend and vote at the EGM. In order for the Shareholders to qualify for attending and voting at the EGM, all transfer documents, accompanied by the relevant Share certificates, should be lodged for registration with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong on or before 4:30 p.m., Friday, 25 November 2022.

### **VOTING AT THE EGM**

The Target Company is owned as to approximately 93.95% by Mr. Fang Yubin, who is the son of Mr. Fang Jin. As such Mr. Fang Jin (together with his associates) has a material interest in the Investment Agreement and the transactions contemplated thereunder and will abstain from voting at the EGM.

Having made all reasonable enquiries, the Board believes that there are no other Shareholders who are required to abstain from voting at the EGM on the proposed resolution other than Mr. Fang Jin's wholly-owned companies, Swift Joy Holdings Limited and Right Grand Holdings Limited, which held 423,770,000 Shares and 128,568,000 Shares, respectively, representing approximately 38.88% and 11.80% of the total number of issued Shares as at the Latest Practicable Date.

The ordinary resolution to approve the Investment Agreement and the transactions contemplated thereunder at the EGM will be taken by poll and announcement on the results of the EGM will be made by the Company after the EGM.

### **RECOMMENDATION**

Your attention is drawn to the letter from the Independent Board Committee set out on pages 19 to 20 of this circular and the letter from the Independent Financial Adviser set out on pages 21 to 45 of this circular, which contains, among other matters, its advice and recommendation to the Independent Board

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## LETTER FROM THE BOARD

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Committee and the Independent Shareholders in connection with the Investment Agreement and the transactions contemplated thereunder and the principal factors considered by it in arriving at its advice and recommendation.

The Independent Board Committee, having taken into account the advice and recommendation of the Independent Financial Adviser, is of the opinion that (i) the terms and conditions of the Investment Agreement and the transactions contemplated thereunder are fair and reasonable and on normal commercial terms and (ii) whilst the Acquisition is not in the ordinary and usual course of business of the Group, it is in the interests of the Company and the Shareholders as a whole and recommend the Independent Shareholders to vote in favour of the relevant resolution to be proposed at the EGM.

Therefore, the Directors consider that (i) the terms and conditions of the Investment Agreement and the transactions contemplated thereunder are fair and reasonable and on normal commercial terms and (ii) whilst the Acquisition is not in the ordinary and usual course of business of the Group, it is in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the relevant resolution to be proposed at the EGM approving the Investment Agreement and the transactions contemplated thereunder.

### **ADDITIONAL INFORMATION**

Your attention is also drawn to the additional information set out in Letter from the Independent Board Committee, Letter from the Independent Financial Adviser, the appendices to this circular and the notice of EGM.

By order of the Board  
**Veson Holdings Limited**  
**Feng Ming Zhu**  
*Chairman*

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**LETTER FROM THE INDEPENDENT BOARD COMMITTEE**

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**VESON HOLDINGS LIMITED**  
**銳信控股有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 01399)**

14 November 2022

*To the Independent Shareholders*

Dear Sir or Madam,

**DISCLOSEABLE AND CONNECTED TRANSACTION**  
**ACQUISITION OF 5.68% EQUITY INTEREST IN THE TARGET COMPANY**  
**DISPOSAL OF LAND**

We refer to the circular dated 14 November 2022 issued by the Company (the “**Circular**”) of which this letter forms part. Capitalised terms used in this letter shall have the same meaning as those defined in the Circular unless otherwise specified.

We have been authorised by the Board to form the Independent Board Committee to consider and advise the Independent Shareholders in respect of the Investment Agreement and the transactions contemplated thereunder, details of which are set out in the section headed “Letter from the Board” contained in the Circular.

We wish to draw your attention to the letter from the Board set out on pages 6 to 18 of the Circular and the letter from the Independent Financial Adviser set out on pages 21 to 45 of the Circular, which contains, among other matters, its advice and recommendation to the Independent Board Committee and the Independent Shareholders in connection with the Investment Agreement and the transactions contemplated thereunder and the principal factors considered by it in arriving at its advice and recommendation.

Having considered, among other matters, the factors and reasons considered by, and the opinion of the Independent Financial Adviser as stated in its letter of advice and recommendation, we consider that (i) the terms and conditions of the Investment Agreement and the transactions contemplated thereunder are fair and reasonable and on normal commercial terms and (ii) whilst the Acquisition is not in the ordinary and

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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usual course of business of the Group, it is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM approving the Investment Agreement and the transactions contemplated thereunder.

Yours faithfully,  
for and on behalf of the  
Independent Board Committee of  
**Veson Holdings Limited**

**Heng Ja Wei Victor**  
**Lam Yau Yiu**  
**Cheung Wai Kwok Gary**  
*Independent non-executive Directors*

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*The following is the full text of the letter of advice from Red Solar Capital Limited, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, in respect of the Transaction for the purpose of inclusion in this Circular.*



Unit 402B, 4/F  
China Insurance Group Building  
No.141 Des Voeux Road Central  
Central, Hong Kong

14 November 2022

*To: The Independent Board Committee and the Independent Shareholders of  
Veson Holdings Limited*

Dear Sirs,

### **DISCLOSEABLE AND CONNECTED TRANSACTION ACQUISITION OF 5.68% EQUITY INTEREST IN THE TARGET COMPANY DISPOSAL OF LAND**

#### **INTRODUCTION**

We refer to our engagement as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the entering into of the Investment Agreement and the transactions contemplated thereunder, including, among other things, the Acquisition and Disposal (collectively, the “**Transaction**”), details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company dated 14 November 2022 (the “**Circular**”), of which this letter of advice forms a part. Unless the context requires otherwise, capitalised terms used in this letter of advice shall have the same meanings as defined in the Circular.

References are made to the Announcement whereby the Board announced that Scud Battery, an indirect wholly-owned subsidiary of the Company, entered into the Investment Agreement with the Target Company, pursuant to which Scud Battery has conditionally agreed to acquire, and the Target Company has conditionally agreed to allot and issue to Scud Battery, 5.68% of equity interest in the Target Company, in accordance with the terms and conditions of the Investment Agreement. Immediately upon Completion, the Target Company will be indirectly owned as to 5.68% by the Company.

#### **Listing Rules implications**

As one or more of the relevant percentage ratios (as defined under the Listing Rules) in respect of each of the Acquisition and the Disposal exceeds 5% but are all less than 25%, each of the Acquisition and the Disposal constitutes a discloseable transaction for the Company under the Listing Rules and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

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## **LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

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As at the Latest Practicable Date, the Target Company is owned as to approximately 93.95% by Mr. Fang Yubin, who is the son of Mr. Fang Jin, the controlling shareholder of the Company, and therefore, the Target Company is a connected person of the Company under the Listing Rules. As such, each of the Acquisition and the Disposal also constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

### **EGM**

The EGM will be convened for the purpose of considering and, if thought fit, approving, among other things, the Investment Agreement and the transactions contemplated thereunder. Details of the EGM are set out in the Circular.

### **VOTING AT THE EGM**

The Target Company is owned as to approximately 93.95% by Mr. Fang Yubin, who is the son of Mr. Fang Jin. As such Mr. Fang Jin (together with his associates) has a material interest in the Investment Agreement and the transactions contemplated thereunder and will abstain from voting at the EGM.

Having made all reasonable enquiries, the Board believes that there are no other Shareholders who are required to abstain from voting at the EGM on the proposed resolution other than Mr. Fang Jin's wholly-owned companies, Swift Joy Holdings Limited and Right Grand Holdings Limited, which held 423,770,000 Shares and 128,568,000 Shares, respectively, representing approximately 38.88% and 11.80% of the total number of issued Shares as at the Latest Practicable Date.

The ordinary resolution to approve the Investment Agreement and the transactions contemplated thereunder at the EGM will be taken by poll and announcement on the results of the EGM will be made by the Company after the EGM.

### **THE INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER**

The Independent Board Committee, comprising Mr. Heng Ja Wei Victor, Mr. Lam Yau Yiu and Mr. Cheung Wai Kwok Gary, being all the independent non-executive Directors, has been established to advise the Independent Shareholders as to whether the terms of the Investment Agreement and the transactions contemplated thereunder are fair and reasonable, on normal commercial terms and in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole, after taking into account the recommendations of us.

We, Red Solar Capital Limited, have been appointed as the Independent Financial Adviser to make recommendations to the Independent Board Committee and the Independent Shareholders as to whether the terms of the Investment Agreement and the transactions contemplated thereunder are fair and reasonable, on normal commercial terms and in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole. Our appointment as the Independent Financial Adviser has been approved by the Independent Board Committee.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### OUR INDEPENDENCE

During the past two years immediately preceding the Latest Practicable Date, save for (i) an engagement for acting as the independent financial adviser in respect of a continuing connected transaction of the Company, the circular of which was dated 14 December 2021 (the “**Previous Engagement**”); and (ii) this engagement of us as the Independent Financial Adviser, no other relationship has been formed and no direct engagement has been performed between the Group, the other party(ies) to the Transaction, or a close associate or core connected person of any of them and us. As at the Latest Practicable Date, we did not have any relationship with, or interest in, the Group, the other party(ies) to the Transaction, or a close associate or core connected person of any of them and us, or other parties that could reasonably be regarded as relevant to our independence. In respect of the Previous Engagement, apart from the normal advisory fee paid to us in connection with our engagement, we did not receive any other fees or benefits from the Company and its subsidiaries or their respective substantial shareholders or any party acting in concert, or presumed to be acting in concert, with any of them. Apart from the normal advisory fee payable to us in connection with our engagement as the Independent Financial Adviser, no arrangement exists whereby we shall receive any other fees or benefits from the Company and its subsidiaries or their respective substantial shareholders or any party acting in concert, or presumed to be acting in concert, with any of them. Accordingly, we considered that we are independent to act as the Independent Financial Adviser in respect of the Transaction pursuant to Rule 13.84 of the Listing Rules.

### BASIS OF OUR OPINION

In formulating our opinion and recommendation to the Independent Board Committee and the Independent Shareholders, we have relied on the information and facts supplied, opinions expressed, statements and representations made to us by the management of the Group (including but not limited to those contained or referred to in the Announcement and the Circular). We have reviewed the documents including but not limited to (i) the Investment Agreement; (ii) the Announcement; (iii) the Circular and the Letter from the Board contained therein; (iv) the annual report of the Company for the year ended 31 December 2021 (the “**2021 Annual Report**”); (v) the interim report of the Company for the six months ended 30 June 2022 (the “**2022 Interim Report**”); and (vi) the relevant supporting documents in respect of the Transaction provided by the Company, including but not limited to historical documents and records, to formulate our opinion and recommendation. We have assumed that the information and facts supplied, opinions expressed, statements and representations made to us by the management of the Group were true, accurate and complete at the time they were made and continue to be true, accurate and complete in all material aspects until the date of the EGM. The Company will inform the Shareholders should there be any material change of information in the Circular up to the date of the EGM. We have also assumed that all statements of belief, opinions, expectation and intention made by the management of the Group in the Circular were reasonably made after due enquiry and careful consideration. Where applicable, we have also conducted independent desktop search and confirmed that there was no material difference between our search result and the information and facts supplied, opinions expressed, statements and representations made to us by the management of the Group. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its management and/or advisers, which have been provided to us.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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The Directors have collectively and individually accepted full responsibility of the Circular and have confirmed, having made all reasonable enquiries, that to the best of their knowledge and belief the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

We considered that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs or future prospects of the Group, or their respective shareholders, subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Transaction. Our opinion is necessarily based on the market, financial, economic and other conditions in effect and the information made available to us as at the Latest Practicable Date. Any subsequent developments may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. Nothing contained in this letter of advice should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

### PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion in respect of the Transaction, we have considered the following principal factors and reasons:

#### I. Background of and reasons for the Transaction

##### (i) *Background information of the Group*

The Company is a limited liability company incorporated in the Cayman Islands and its Shares are listed on the Main Board of the Stock Exchange (stock code: 1399). The Group is principally engaged in the manufacture and sale of lithium-ion battery modules and related accessories for mobile phones, tablets, notebook computers and digital electronic appliances. The Group is also engaged in manufacture and sale of lithium-ion bare battery cells.

The following table sets out key financial information of the Group for each of the two years ended 31 December 2021 (the “**FY2020**” and “**FY2021**”, respectively) as extracted from the 2021 Annual Report, and for the six months ended 30 June 2021 and 2022, respectively (the “**6M2021**” and “**6M2022**”, respectively), as extracted from the 2022 Interim Report:

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**LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

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	<b>For the 6M2022 RMB'000 (Approximately) (unaudited)</b>	<b>For the 6M2021 RMB'000 (Approximately) (unaudited)</b>	<b>For the FY2021 RMB'000 (Approximately) (audited)</b>	<b>For the FY2020 RMB'000 (Approximately) (audited) (re-presented)</b>
Turnover	3,151,541	3,194,976	7,091,644	6,216,571
Gross profit	262,677	273,565	514,686	385,946
Profit/(loss) for the period/year	12,447	8,592	38,561	(57,482)
		<b>As at 30 June 2022 RMB'000 (Approximately) (unaudited)</b>	<b>As at 31 December 2021 RMB'000 (Approximately) (audited)</b>	<b>As at 31 December 2020 RMB'000 (Approximately) (audited)</b>
Total assets		5,047,543	5,578,631	4,643,973
Total liabilities		3,994,121	4,517,247	3,619,432
Net assets		1,053,422	1,061,384	1,024,541

*Discussion on the Group's performance between FY2020 and FY2021*

The Group's turnover increased by approximately RMB875.1 million, or approximately 14.1%, from approximately RMB6,216.6 million for the FY2020 to approximately RMB7,091.6 million for the FY2021. The Group's gross profit increased by approximately RMB128.7 million, or approximately 33.4%, from approximately RMB385.9 million for the FY2020 to approximately RMB514.7 million for the FY2021. The Group also managed to turn a net loss of approximately RMB57.5 million for the FY2020 into a net profit of approximately RMB38.6 million for the FY2021.

According to the 2021 Annual Report, the growth in the Group's turnover between FY2020 and FY2021 was mainly contributed by the Group's ODM business. During the FY2021, the Group's high-quality customer base has remained stable, maintaining the existing mobile phone market share, allowing the Group to maintain a competitive advantage in the mobile phone battery ODM market. In recent years, the Group has been more active in making breakthroughs in batteries in other fields, gradually increasing the revenue of notebook batteries, tablet batteries and other types of batteries such as motive batteries, backup batteries, true wireless Bluetooth headset batteries and outdoor power supplies. During the FY2021, sales of notebook batteries and tablet batteries grew rapidly, becoming a new growth driver for the Group's revenue in FY2021. Tablet batteries and notebook batteries contributed turnover of approximately RMB559.3 million to the Group for the FY2021, as compared with approximately RMB67.3 million for the FY2020. The Group's turnover of mobile phone

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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batteries also increased from approximately RMB5,143.8 million for the FY2020 to approximately RMB5,768.3 million for the FY2021, while the Group's turnover of power bank decreased from approximately RMB426.5 million for the FY2020 to approximately RMB314.4 million for the FY2021.

The Group's bare battery cell business recorded consolidated turnover of approximately RMB184.7 million for the FY2020 and approximately RMB180.7 million for the FY2021, which was generally stable.

The overall gross profit margin of the Group increased from approximately 6.2% in the FY2020 to approximately 7.3% in the FY2021, which was mainly a result of an increase in gross profit margin for the ODM business segment from approximately 6.0% to 7.2% during the FY2020 and FY2021, respectively. The gross profit margin for the bare battery cell business of the Group was approximately 12.3% and 14.2% for the FY2020 and FY2021, respectively.

The Group's turnaround from a net loss position in the FY2020 to a net profit position in the FY2021 was also primarily attributed to the growths in its ODM business segment.

The Group's net assets generally remained stable between 31 December 2020 and 2021, respectively.

### *Discussion on the Group's performance between 6M2021 and 6M2022*

The Group's turnover amounted to approximately RMB3,195.0 million for the 6M2021 and approximately RMB3,151.5 million for the 6M2022, which was generally stable. The Group's gross profit slightly decreased by approximately RMB10.9 million, or approximately 4.0%, from approximately RMB273.6 million for the 6M2021 to approximately RMB262.7 million for the 6M2022. The Group's net profit increased by approximately RMB3.9 million, or approximately 44.9%, from approximately RMB8.6 million for the 6M2021 to approximately RMB12.4 million for the 6M2022.

According to the 2022 Interim Report, as a result of the global outbreak of the COVID-19 pandemic, the business environment became unprecedentedly challenging. Nonetheless, significant efforts were made to temporarily adjust the Group's scale of operation and cut down discretionary spending, and the Group observed gradual recovery in sales order volume and increase in revenue contributed by tablet batteries and notebook batteries, which was a primary driver of the growth in the Group's net profit between 6M2021 and 6M2022.

The Group's net assets generally remained stable between 31 December 2021 and 30 June 2022.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### *Prospects*

Although the management of the Company, as reflected in the 2021 Annual Report and the 2022 Interim Report, considered that the COVID-19 pandemic has accelerated change in people's lifestyle and raised reliance on online platforms which may boost the demand for smart electronic products and related accessories, the Directors observed a decline in growth rate of smartphone shipments in recent years, and expected the business environment in the coming future to continue to be full of challenges. Therefore, the Directors believed that the Group should proactively pay attention to the application of lithium-ion batteries in new industries and new fields and seize opportunities for access to the market. The Group will also focus on improving profitability, preserving financial strength and enhancing its long-term competitiveness.

### **(ii) *Reasons for and benefits of the Transaction***

*The Acquisition is in line with the Group's future plan and the Target Company represented a suitable investment target*

As set out in the Letter from the Board, the Directors believe that the Target Company is of a high and long-term investment value and that the Acquisition will create a long term and mutually beneficial strategic partnership between Scud Battery and the Target Company.

According to the 2021 Annual Report and the 2022 Interim Report, the Group has rich experience in manufacturing lithium-ion batteries and research and development on application technology, and has experienced ODM product development team which is able to jointly develop, design and optimise battery solutions that best align with customer needs. It is also set out that the Group will proactively pay attention to the application of lithium-ion batteries in new industries and new fields and seize opportunities for access to the market.

The Target Company is a motive battery developer and its main business is to provide motive batteries, energy storage control systems, energy storage power supplies and related ancillary products. For FY2020 and FY2021, respectively, the Target Company's revenue generated from sales of motive batteries accounted for over 90% and 85% of its total revenue. We have further enquired with the Company and understood that the Target Company focused in the medium and small power source market, and its primary applications included, without limitation, vacuum cleaner, sweeper, electric motorcycle, electric scooter.

The Group's ODM business primarily covered mobile phone batteries, notebook batteries, tablet batteries, other types of batteries such as motive batteries, backup batteries, true wireless Bluetooth headset batteries and outdoor power supplies, as well as power banks. We concurred with the Directors that the businesses and application coverages of the Group and the Target Company were complementary in terms of resources and demand, and not directly competitive.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Meanwhile, The Directors expected a downward trend in the growth of smartphone shipments which is attributable to market saturation, lack of technological breakthrough and increasingly budget-conscious consumers. In light of this, the Directors are of the opinion that Scud Battery should strategically expand its business portfolio beyond lithium-ion battery modules for handheld smart devices. Through the Acquisition, Scud Battery could strategically diversify its business and invest into the motive battery sector, which is expected to enter into a phase of rapid growth, fueled by the considerable growth in electric vehicles sales and the PRC government's policies behind to promote green energy and lower carbon footprint, higher preference for clean energy among consumers and improved battery performance which increase consumer demand for electric vehicles including electric motorcycles and electric scooters. We agreed with the aforesaid view of the Directors after conducting our own desktop research, which is discussed in detail in the following paragraphs.

We were also of the view that by investing into the Target Company and becoming one of its shareholders, though a minority one, the Group could gain influence in the Target Company to some extent. The Group, as a shareholder of the Target Company, may then promote exchange or share of knowledge, experience, technologies, technical know-hows, network and/or resources between the Group and the Target Company, and facilitate strategic cooperation there between such as joint research and development of new products and technologies. During the aforesaid processes, the Group may gain additional experience, knowledge or technical know-hows in manufacturing lithium-ion batteries for various applications and in research and development on various application technology. For instance, investing into the Target Company allows Scud Battery to partner closely with the Target Company in the production of motive batteries. Scud Battery can, through its provision of processing services for printed circuit boards of motive batteries, apply and improve its know-how in the motive battery sector and accumulate sector knowledge. The Group may also enjoy synergies from possible strategic cooperation in the future such as cost sharing in joint research and development, market exploration and marketing, referral of potential customers, and technological advancement through exchange of knowledge and experience. The enriched experience and technical know-hows of the Group could also enhance its future capability to research and develop new ODM products and application technologies, and hence its ability to explore new downstream markets in the future and achieve long-term development and growth. In particular, the Directors hope that a closer partnership between Scud Battery and the Target Company can allow Scud Battery to innovate in the motive battery sector and explore future development opportunities in this sector. Such investment into the Target Company was also in line with the Group's future plan to proactively pay attention to the application of lithium-ion batteries in new industries and new fields and seize opportunities for access to the market, as set out in the 2021 Annual Report and the 2022 Interim Report.

We also noted that Scud Battery has been providing processing services for printed circuit boards to the Target Company since January 2022, and has formed an upstream and downstream relationship with it. We concurred with the Directors that the Acquisition could facilitate a close and stable relationship and strategic partnership between Scud Battery and the Target Company, which in turn facilitates stable demands from the Target Company for processing services provided by Scud Battery. Increased demand that may come from the

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Target Company stemming from strong growth in the motive battery sector could also make up for the decreased demand attributed to the slowing down of the handheld smart device sector, allowing Scud Battery to put its production capacity to good use.

In addition, the Target Company recorded net profits in the last three financial years. We noted that the Target Company recorded a decrease in profit after taxation from approximately RMB49.0 million for FY2020 to approximately RMB29.6 million for FY2021. We have reviewed the audited financial statements of the Target Company and enquired with the Company and understood that such decrease in the profit after taxation of the Target Company was primarily attributed to (i) an increase in its administrative expenses from approximately RMB55.9 million for FY2020 to approximately RMB73.8 million for FY2021, mainly due to an expansion in its labour force and establishments of research base in various locations in the PRC to better attract talents and serve various demands of its customers; (ii) an increase in its research and development expenses from approximately RMB58.4 million for FY2020 to approximately RMB82.4 million for FY2021, mainly due to the addition of five research projects in FY2021 on new products; and (iii) a decrease in its non-operating income from approximately RMB16.9 million for FY2020 to approximately RMB0.9 million for FY2021. A significant proportion of the non-operating income of the Target Company for FY2020, being approximately RMB11.4 million, was liquidated damages in favour of the Target Company due to a default on the part of its customer, and was non-recurring in nature. Excluding the aforesaid non-operating incomes and non-operating expenses which amounted to approximately RMB0.3 million and RMB3.2 million for the FY2020 and FY2021, respectively, and which are primarily liquidated damages paid by the Target Company to its customers or suppliers and a return of fitting subsidies to a industry park in the FY2021 as it moved out, the operating profit of the Target Company amounted to approximately RMB32.4 million and RMB31.9 million for FY2020 and FY2021, respectively, which we considered stable. In view of the above, we considered the historical performance of the Target Company to be healthy.

Looking forward to the prospect of the industry of the Target Company, we are aware of the PRC Government's policies to promote green energy and lower carbon footprint. In particular, as set out in the Notice of Issuance of General Plan for Energy Conservation and Emissions Reduction During the 14th Five-Year Plan Period (2021-2025) by The State Council of the PRC\* (*《國務院關於印發“十四五”節能減排綜合工作方案的通知》*)<sup>#</sup>) issued by The State Council of the PRC, the PRC Government and authorities will pursue, among other things, energy saving and emission reduction in the transport and logistics sectors through increasing the percentage of new green electric energy vehicles among new vehicle sales to approximately 20% by 2025, promoting the use of new green electric energy vehicles in the fields of public transport, vehicle rental, logistics and public hygiene vehicles, and promoting infrastructure for electric vehicle battery charging and swapping. Based on such policies of the PRC Government, and that motive batteries which are generally used in electric vehicles were one of the primary products of the Target Company, we considered that the Target Company will continue to benefit from the PRC Government's policies and maintain a steady growth in the future.

<sup>#</sup> [http://www.gov.cn/zhengce/content/2022-01/24/content\\_5670202.htm](http://www.gov.cn/zhengce/content/2022-01/24/content_5670202.htm)

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Having considered that the Target Company has a healthy performance during FY2020 and FY2021, and will continue to benefit from the PRC Government's policies in the future, we casted no doubt on the continual development of the Target Company and its ability to maintain a healthy performance in the future with potentials to grow further. As such, we considered that the Company's investment into the Target Company, though a minority one in a private company, would continue to bring benefits to the Group as to (i) facilitating exchange or share of experience, knowledge, technologies and/or technical know-hows; (ii) stimulating the Group's research and development capability on new products and application technologies, and hence its ability to explore new downstream markets in the future; (iii) generating synergies for the Group as set out in the paragraphs above, such as cost saving for certain activities and referral of customers; (iv) facilitating a stable relationship and strategic partnership between Scud Battery and the Target Company, which in turn facilitates stable demands from the Target Company and higher utilisation rates of Scud Battery's production capacity, supporting the Group's revenue generating activities; and (v) although the Target Company has not declared or distributed any dividend since incorporation because it is considered to be in the growth phase and its retained earnings should be retained to fund costs of future R&D and potential expansion, the Directors are optimistic about the future potential growth of the Target Company and believed that the Company may be entitled to possible dividends from the Target Company in the future as the Target Company enters the maturity phase. Although the Company's investment into the Target Company only accounted for approximately 5.68% of the share capital of the Target Company and is a private equity in nature which the Company may not be able to realise swiftly, having considered (i) the aforesaid benefits of the Acquisition to the Group; (ii) that it is not the Group's intention to have this as a short term investment, but rather a long term investment; and (iii) that Scud Battery may still dispose of its shares in the Target Company should it elect to do so as there are no restrictions on the transfer of shares of the Target Company, we concurred with the Directors that the Target Company represented a suitable target for long-term investment and the Acquisition is beneficial to the Group's operation.

*The Disposal represented an effective use of the Group's idle resources in exchange for value assets*

As set out in the Letter from the Board, Scud Battery acquired the right to use the Land from the Natural Resources and Planning Bureau of Mawei District in 2006. Scud Battery intended to use the Land for possible expansion of the Scud Industrial Park in 2019. Nonetheless, as the existing infrastructure of the Scud Industrial Park is adequate for the business needs of the Group, the Land has not been put into use.

On the other hand, after enquiry with the Company, we understood that the Target Company has a need for more land to establish new production facilities and expand its production capacity with the growths in its business and operation scale.

We further understood that the Directors, after considering the reasons for and benefits of the Acquisition as set out in the paragraphs headed "REASONS FOR AND BENEFITS OF THE ACQUISITION AND THE DISPOSAL" in the Letter from the Board, and that the Land

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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has been idle since the Group acquired it, were of the view that the Disposal represented an effective use of the Group's idle resources in exchange for equity interests in the Target Company, which were considered value assets by the Directors.

After considering the factors set out in the paragraphs headed "The Acquisition is in line with the Group's future plan and the Target Company represented a suitable investment target" in this letter above, we concurred that the equity interests in the Target Company to be acquired by the Company pursuant to the Investment Agreement represented value assets to the Company.

We have further enquired with the management of the Company and understood that the Group had no concrete plan to use the Land as at the date of the Investment Agreement and up to the Latest Practicable Date. As such, we concurred that the Land represented an idle resource of the Group.

Based on the above, we agreed that the Disposal represented an effective use of the Group's idle resources in exchange for value assets.

### *Conclusion*

Taking into account (i) the factors set out in the paragraphs headed "The Acquisition is in line with the Group's future plan and the Target Company represented a suitable investment target" in this letter above; and (ii) the Disposal represented an effective use of the Group's idle resources in exchange for value assets, we were of the view that the Transaction, being the entering into of the Investment Agreement and the Acquisition and Disposal contemplated thereunder, among other things, was commercially justifiable and in the interests of the Company and the Shareholders as a whole.

## **II. Principal terms of the Investment Agreement**

The principal terms of the Investment Agreement are set out below:

<b>Date:</b>	7 November 2022
<b>Parties:</b>	(a) Scud Battery; and (b) Target Company.
<b>The Acquisition:</b>	Scud Battery has conditionally agreed to acquire, and the Target Company has conditionally agreed to allot and issue to Scud Battery, 5.68% of equity interest in the Target Company in accordance with the terms and conditions of the Investment Agreement.
<b>Consideration:</b>	The consideration of the Acquisition (i.e. the Consideration) comprise:

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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- (a) the land use rights of the Land (i.e. the Land Use Rights); and
- (b) the building ownership rights of the buildings erected on the Land (i.e. the Building Ownership Rights)

The Land has a total area of approximately 17,026.39 sq.m. and the buildings erected on the Land have a total floor area of approximately 73.07 sq.m. For further details of the Land, please refer to section headed “INFORMATION OF THE LAND” in the Letter from the Board.

The Consideration was determined after arm’s length negotiations between the Parties on normal commercial terms taking into account:

- (a) value of 5.68% equity interest in the Target Company as at 31 December 2021 in the valuation report of approximately RMB20,970,000 (equivalent to approximately HK\$22,792,293), based on an enterprise valuation report dated 7 November 2022 prepared by the Independent Enterprise Valuer, a summary of which is set out in Appendix II to the Circular; and
- (b) aggregate value of the Land Use Rights and Building Ownership Rights as at 30 September 2022 in the valuation report of approximately RMB20,940,000 (equivalent to approximately HK\$22,759,686), based on a property valuation report dated 7 November 2022 prepared by the Independent Property Valuer, the text of which are set out in Appendix I to the Circular.

**Conditions Precedent:**

Please refer to the paragraphs headed “Conditions Precedent” in the Letter from the Board.

**Completion:**

Please refer to the paragraphs headed “Completion” in the Letter from the Board.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### III. Our analysis on the principal terms of the Investment Agreement

(i) *The valuation of the 5.68% equity interest in the Target Company to be acquired by the Company pursuant to the Investment Agreement (the “Equity Interest”)*

As set out in the principal terms of the Investment Agreement above, the value of the Equity Interest of approximately RMB20,970,000 (equivalent to approximately HK\$22,792,293) as at 31 December 2021, the record date, was based on an enterprise valuation report (the “**Enterprise Valuation Report**”) dated 7 November 2022 prepared by the Independent Enterprise Valuer appointed by the Company. To assess the fairness and reasonableness of such valuation of the Target Company, we have conducted the following analysis.

(a) *Our due diligence work on the Independent Enterprise Valuer’s background, qualifications and experience*

We have interviewed the Independent Enterprise Valuer and conducted an enquiry into their background, qualifications and experiences. According to our interview and the information provided by the Independent Enterprise Valuer, we noted that the Independent Enterprise Valuer was established in 1992 in the PRC, and obtained qualification jointly issued by the Ministry of Finance of the PRC (the “**MoFPRC**”) and China Securities Regulatory Commission (the “**CSRC**”) in 1993 to carry out valuations of securities and futures businesses and assets. Since 2009, the Independent Enterprise Valuer further obtained qualification to carry out valuations of assets, real estates and lands. We have also obtained information on the Independent Enterprise Valuer’s track records of asset valuations and noted that the Independent Enterprise Valuer had provided valuation services to a wide range of listed companies and government authorities in the PRC.

We further noted that the signor of the Enterprise Valuation Report is a certified asset appraiser and department manager of the Independent Enterprise Valuer and is a certified asset appraiser registered under the China Appraisal Society having over 15-year experience in valuing assets in the PRC.

As such, we are of the view that the Independent Enterprise Valuer and the person responsible for preparing and signing the Enterprise Valuation Report are qualified, experienced and competent in performing asset valuations and providing a reliable opinion in respect of the valuation of the Target Company.

We have also enquired with the Independent Enterprise Valuer as to its independence from the Group and the Target Company and were given the understanding that the Independent Enterprise Valuer is an independent third party of the Group and the Target Company and their connected persons. The Independent Enterprise Valuer also confirmed to us that it was not aware of any relationship or interest between itself and the Group or the Target Company or any other parties that would reasonably be considered to affect its independence to act as an independent valuer for the Company. The Independent Enterprise Valuer

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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confirmed to us that apart from normal professional fees payable to it in connection with its engagement for the valuation of the Target Company, no arrangements exist whereby it will receive any fee or benefit from the Group or the Target Company and their associates.

Furthermore, we also noted from the engagement letter entered into between the Company and the Independent Enterprise Valuer that the scope of work was appropriate for the Independent Enterprise Valuer to form the opinion required to be given and there were no limitations on the scope of work which might adversely impact the degree of assurance given by the Independent Enterprise Valuer in the Enterprise Valuation Report.

In light of the above, we are not aware of any matters that would cause us to question the Independent Enterprise Valuer's expertise and independence and we consider that the Independent Enterprise Valuer has sufficient expertise and is independent to perform the valuation of the Target Company.

*(b) Basis and assumptions adopted in the Enterprise Valuation Report*

We have reviewed the Enterprise Valuation Report and understand that the Enterprise Valuation Report was prepared in compliance with the requirements of The Basic Criteria for Asset Appraisal\* (《資產評估基本準則》) issued by the MoFPRC and The Codes of Practice for Asset Appraisal\* (《資產評估執業準則》) and The Codes of Professional Ethics\* (《職業道德準則》) issued by the China Appraisal Society. Having considered that the Target Company is based in the PRC, we considered it acceptable for the Independent Enterprise Valuer to adopt the aforesaid relevant requirements and basis in preparing the Enterprise Valuation Report.

We also noted that the conclusion of value therein relied on the use of a number of assumptions. We have reviewed such assumptions and considered them to be general and commonly adopted assumptions in valuation reports. Since no other unusual matters had come to our attention in this respect, we considered the basis and assumptions adopted in the Enterprise Valuation Report to be fair and reasonable.

*(c) Valuation methodology in the Enterprise Valuation Report*

We have discussed with the Independent Enterprise Valuer on the methodology adopted in valuing the Target Company as at 31 December 2021, the record date and noted they had considered the three generally accepted valuation approaches, namely the income approach, the market approach and the cost approach. The followings are general descriptions of the three aforesaid approaches.

*“Income approach:*

*The income approach provides an indication of value based on the principle that an informed buyer would pay no more than the present value of anticipated future economic benefits generated by the subject asset.*

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*The fundamental method for income approach is the discounted cash flow (“DCF”) method. Under the DCF method, the value depends on the present value of future economic benefits to be derived from ownership of the enterprise. Thus, an indication of the equity value is calculated as the present value of the future free cash flow of a company less outstanding interest-bearing debt, if any. The future cash flow is discounted at the market-derived rate of return appropriate for the risks and hazards of investing in a similar business.”*

*“Cost approach:*

*The cost approach considers the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices for similar assets, with allowance for accrued depreciation arising from condition, utility, age, wear and tear, or obsolescence (physical, functional or economical) present, taking into consideration past and present maintenance policy and rebuilding history.”*

*“Market approach:*

*The market approach provides an indication of value by comparing the subject asset to similar assets that have been sold in the market, with appropriate adjustments for the differences between the subject asset and the assets that are considered to be comparable to the subject asset.*

*Under the market approach, the comparable company method computes a price multiple for publicly listed companies that are considered to be comparable to the subject asset and then applies the result to a base of the subject asset. The comparable transaction method computes a price multiple using recent sales and purchase transactions of assets that are considered to be comparable to the subject asset and then applies the result to a base of the subject asset.”*

In the valuation of the equity interest in the Target Company, the Independent Enterprise Valuer has adopted the income approach due to the following reasons: (i) the market approach was not practicable as the Independent Enterprise Valuer was unable to identify companies nor transactions of assets that are comparable to the Target Company; (ii) the cost approach was considered not suitable as it only considers the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices for similar assets, with allowance for accrued depreciation, taking into consideration past and

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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present maintenance policy and rebuilding history. In contrast, the core assets and edges of the Target Company were considered to be its patents, research and development capability, sales and marketing channels and customer networks, which may not be accurately reflected by the cost approach; and (iii) the income approach was considered the most suitable approach as the Independent Enterprise Valuer has been provided with an estimation of future economic benefits to be derived from ownership of the Target Company, which is not proposed to become a subsidiary of the Company, and the Independent Enterprise Valuer was able to determine a rate of discount at the market-derived rate of return appropriate for the risks and hazards of investing in the Target Company. It was also because the market approach was not practicable and the cost approach was considered not suitable.

*(d) Our analysis on the valuation methodology adopted in the Enterprise Valuation Report*

We agreed that the core assets and edges of the Target Company were considered to be its patents, research and development capability, sales and marketing channels and customer networks, which may not be accurately reflected by the cost approach. As such, we concurred with the Independent Enterprise Valuer that the cost approach was not suitable in valuing the Target Company.

On the other hand, we have also assessed whether the market approach is appropriate for valuing the Target Company. Nonetheless, we were unable to identify publicly listed companies nor subject companies in comparable transactions in the PRC which were in similar stage of development nor size of the Target Company. Therefore, we agreed that there were insufficient comparable targets with similar size and stage for a meaningful comparison, which is a prerequisite for conducting the market approach. Accordingly, we agreed that the market approach is not practicable for valuing the Target Company.

Finally, having considered (i) that the basis and assumptions adopted in the Enterprise Valuation Report were considered fair and reasonable after our review as discussed above; (ii) the aforesaid reasons for not adopting the market approach and cost approach in valuing the Target Company; and (iii) the availability of an estimation of future economic benefits to be derived from ownership of the Equity Interest of the Target Company, which is not proposed to become a subsidiary of the Company, we were of the opinion that it is appropriate for the Independent Enterprise Valuer to adopt income approach in valuing the Target Company.

*(e) Valuation of the Target Company*

The valuation of the Target Company was based on an estimation of future economic benefits to be derived from ownership of the Equity Interest of the Target Company, which is not proposed to become a subsidiary of the Company. We have reviewed the Enterprise Valuation Report and noted that such estimation, in general, was made according to the following steps: (i) based on the historical audited financial statements of the Target Company for the year ended 31 December 2018 (the “FY2018”) and 2019 (the “FY2019”), FY2020 and FY2021, the Independent Enterprise Valuer obtained a breakdown of the turnover of the Target Company by product types for the FY2018, FY2019, FY2020 and FY2021; (ii) the Independent Enterprise Valuer has considered the historical growths in the Target

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Company's turnover between FY2018 and FY2021, and conducted industry researches on the PRC markets of each of the product types of the Target Company and understood that their market values are expected to grow at various magnitude due to prevailing market forces and/or favourable PRC Government policies, and thus applied growth rates ranging from 3% to 10% on the audited figures for the FY2021 in estimating the turnover of the Target Company by product types for 2022, 2023, 2024, 2025. Starting from 2026 and thereafter, a nil growth rate is applied to the estimated turnover of the Target Company by product types; (iii) the Independent Enterprise Valuer obtained the cost of sales of the Target Company by product types for FY2018, FY2019, FY2020 and FY2021, and understood that they remained relatively stable as proportions to the turnover of the respective product types of the Target Company. As such, the Independent Enterprise Valuer adopted the averages of historical cost-to-turnover ratios in estimating the cost of sales of the Target Company by product types for 2022, 2023, 2024, 2025. Starting from 2026 and thereafter, a nil growth rate is applied to the estimated cost of sales of the Target Company by product types; (iv) the Independent Enterprise Valuer obtained the other operating income of the Target Company for FY2018, FY2019, FY2020 and FY2021, then estimated the other operating income of the Target Company for 2022 to be the average of that for FY2019, FY2020 and FY2021. Starting from 2023 and thereafter, a 3% growth rate is applied to the estimated other operating income of the Target Company; (v) for other operating costs including but not limited to administrative expenses, sales and marketing expenses, research and development expenses, finance expenses and tax expenses of the Target Company, the Independent Enterprise Valuer generally adopted the averages of historical cost-to-turnover ratios of the respective costs in estimating the future respective costs of the Target Company for 2022, 2023, 2024, 2025, 2026 and thereafter, save and except for salaries where a 1% growth rate is applied in its estimation for 2023, 2024 and 2025 and nil growth rate is applied thereafter; and (vi) straight-line method is adopted for estimating the depreciation expenses of the Target Company.

In respect of the historical audited financial statements of the Target Company for FY2018, FY2019, FY2020 and FY2021 adopted in the Enterprise Valuation Report, we have obtained from the Company and reviewed the respective audit reports of the Target Company for FY2018, FY2019, FY2020 and FY2021, respectively. We noted that the aforesaid audit reports of the Target Company were prepared by an accountants' firm in the PRC which was approved and certified by The Ministry of Finance of the PRC to carry out the business of certified public accountants in the PRC and has an operation history of over 22 years as shown on its certificate. We also noted that the person signing the aforesaid audit reports of the Target Company was a certified public accountant authorised by and registered under the Fujian Province branch of The Chinese Institute of Certified Public Accountants (福建省註冊會計師協會) having an experience of over 23 years as shown on its registration document. We have also reviewed the basis and accounting policies adopted in the aforesaid audit reports of the Target Company and, though we are not experts of accounting in the PRC, no extraordinary basis and accounting policies in such audit reports of the Target Company has come to our attention. Based on the professional background, certificate and registration of the Target Company's accountant firm and the signing certified public accountant of the aforesaid audit reports of the Target Company, as well as that no extraordinary basis and accounting policies in such audit reports of the Target Company has come to our attention during our

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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review, we casted no doubt on the appropriateness of the Independent Enterprise Valuer adopting such historical audited financial statements of the Target Company for FY2018, FY2019, FY2020 and FY2021 in the Enterprise Valuation Report.

In respect of the growth rates applied by the Independent Enterprise Valuer in estimating the turnover of the Target Company by product types for 2022, 2023, 2024, 2025, we have reviewed and understood that the Independent Enterprise Valuer has, in estimating such growth rates, considered the growths in the Target Company's turnover of over 30% in 2019, over 55% in 2020 and over 7% in 2021, and conducted researches on the prevailing market trends, forces and/or favourable PRC Government policies in respect of each product types of the Target Company. We further noted that although the growth in the Target Company's turnover slowed down in 2021, it was mainly caused by the drop in the Target Company's sales of moped batteries and moped lock batteries in 2021 due to reduced consumption and demand as a result of the COVID-19 pandemic in the PRC, and the Target Company still recorded growths of over 50% in the sales of all its other key products. We have also conducted our own researches on the market trends in respect of each product types of the Target Company, and we were not aware of material difference between our research results and the results set out in the relevant parts of the Enterprise Valuation Report. Having also considered that the growth rates applied by the Independent Enterprise Valuer in estimating the turnover of the Target Company by product types for 2022, 2023, 2024 and 2025 were mostly much lower than the historical growths in the sales of the respective products, and that nil growth rate was applied in estimating the turnover of the Target Company from 2026 onward, we did not consider the growth rates applied by the Independent Enterprise Valuer in estimating the future turnover of the Target Company to be unfair and unreasonable.

As the adoption of the income approach requires an appropriate discount rate for the Target Company, we noted that the Independent Enterprise Valuer had used the Capital Assets Pricing Model (the "CAPM") to estimate the cost of equity, which is then used to calculate the weighted average cost of capital (the "WACC") for discounting the future cashflow projection into present value. In arriving at the cost of equity, the Independent Enterprise Valuer took into account various factors including (i) risk-free rate; (ii) systematic risk (the "Beta"); and (iii) equity market premium.

We understood that the CAPM technique is widely accepted for the purpose of estimating required rate of return on equity. Besides, the Independent Enterprise Valuer adopted 3.9719% as risk-free rate, which was determined with the yield-to-maturity of the government bond with maturity exceeding ten years in the PRC as at 31 December 2021, the record date of the Enterprise Valuation Report, which we considered to be justifiable.

In addition, we noted that the Independent Enterprise Valuer calculated re-leveled Beta based on comparable companies with certain criteria, including:

- (i) The companies are primarily engaged in the manufacturing of batteries;
- (ii) The business activities of the companies and majority of revenue generated are from manufacturing of batteries in the PRC;

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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- (iii) The companies are listed on stock exchanges in the PRC; and
- (iv) The financial information of the companies is available to the public.

We have obtained and reviewed the list of comparable companies used for the purpose of calculating the re-leveled Beta and noted that the comparable companies selected met the selection criteria as aforementioned. We have no doubt on the representativeness of the comparable companies used for the calculation of re-leveled Beta by the Independent Enterprise Valuer.

Furthermore, the Independent Enterprise Valuer has taken into account company specific premium when calculating the final cost of equity to be adopted. It was to account for the uncertainties in achieving the financial projections and future operational risks given that the Target Company has a relatively smaller scale than the aforesaid comparable companies, as well as its reliance on major suppliers of raw materials. We have no doubt on including such premium into the final cost of equity to be adopted as the adaptation of such premium was in line with the conditions of the Target Company.

After considering all the above, the Independent Enterprise Valuer adopted 18.19% as the cost of equity.

In arriving at the cost of debt, the Independent Enterprise Valuer has adopted the 5 Years Loan Prime Rate of the People's Bank of China of 4.65%, which we considered to be justifiable. The after-tax cost of debt was 3.9525% after considering a tax rate of 15% for high-and-new tech enterprises in the PRC.

Having also considered the equity and debt ratio of the Target Company, the Independent Enterprise Valuer has adopted a WACC of 12.71% in the valuation of the Target Company.

Based on all of the above, the entire equity interest in the Target Company as at 31 December 2021, the record date of the Enterprise Valuation Report, was valued at approximately RMB369,105,000. Accordingly, the Equity Interest was valued at approximately RMB20,965,164, which is close to the amount of RMB20,970,000 adopted as the Consideration of the Equity Interest.

Based on all the above information and documents supplied to us in respect of the valuation of the Target Company, and having considered that we have not identified any material factors which caused us to doubt the fairness and reasonableness of the principal bases and assumptions adopted for the valuation of the Target Company, we considered the valuation of the Target Company and thus the Equity Interest to be fair and reasonable.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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(ii) *The valuation of the Land Use Rights and Building Ownership Rights*

As set out in the principal terms of the Investment Agreement above, the aggregate value of the Land Use Rights and Building Ownership Rights of approximately RMB20,940,000 (equivalent to approximately HK\$22,759,686) as at 30 September 2022, the record date, was based on a property valuation report (the “**Property Valuation Report**”) dated 7 November 2022 prepared by the Independent Property Valuer. To assess the fairness and reasonableness of such valuation of the Land Use Rights and Building Ownership Rights, we have conducted the following analysis.

(a) *Our due diligence work on the Independent Property Valuer’s background, qualifications and experience*

We have interviewed the Independent Property Valuer and conducted an enquiry into their background, qualifications and experiences. According to our interview and the information provided by the Independent Property Valuer, we noted that the Independent Property Valuer obtained qualification jointly issued by the MoFPRC and CSRC to carry out valuations of securities and futures businesses and assets. The Independent Property Valuer also obtained qualifications to carry out valuations of assets, real estates and lands from the PRC Government and authorities. We have also obtained information on the Independent Property Valuer’s track records of land and real estate valuations and noted that the Independent Property Valuer had provided valuation services to a wide range of land and real estate properties in the PRC.

We further noted that the signor of the Property Valuation Report is a registered appraiser of the Independent Property Valuer and is a registered real estate appraiser approved by and registered under the Ministry of Housing and Urban-Rural Development of the PRC having over 20-year experience in valuing land and real estate properties in the PRC.

As such, we are of the view that the Independent Property Valuer and the person responsible for preparing and signing the Property Valuation Report are qualified, experienced and competent in performing land and real estate valuations and providing a reliable opinion in respect of the valuation of the Land Use Rights and Building Ownership Rights.

We have also enquired with the Independent Property Valuer as to its independence from the Group and were given the understanding that the Independent Property Valuer is an independent third party of the Group and their connected persons. The Independent Property Valuer also confirmed to us that it was not aware of any relationship or interest between itself and the Group or any other parties that would reasonably be considered to affect its independence to act as an independent valuer for the Company. The Independent Property Valuer confirmed to us that apart from normal professional fees payable to it in connection with its engagement for the valuation of the Land Use Rights and Building Ownership Rights, no arrangements exist whereby it will receive any fee or benefit from the Group and its associates.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Furthermore, we also noted from the engagement letter entered into between the Company and the Independent Property Valuer that the scope of work was appropriate for the Independent Property Valuer to form the opinion required to be given and there were no limitations on the scope of work which might adversely impact the degree of assurance given by the Independent Property Valuer in the Property Valuation Report.

In light of the above, we are not aware of any matters that would cause us to question the Independent Property Valuer's expertise and independence and we consider that the Independent Property Valuer has sufficient expertise and is independent to perform the valuation of the Land Use Rights and Building Ownership Rights.

*(b) Basis and assumptions adopted in the Property Valuation Report*

We have reviewed the Property Valuation Report and understand that it was prepared in compliance with the requirements of The Codes of Practice for Real Estate Appraisal\* (《房地產估價規範》, the national standard of the PRC numbered GB/T 50291 - 2015) and The Standards of Basic Terminology for Real Estate Appraisal\* (《房地產估價基本術語標準》, the national standard of the PRC numbered GB/T 50899 - 2013) issued by the PRC Government. Having considered that the Land Use Rights and Building Ownership Rights are based in the PRC, we considered it acceptable for the Independent Property Valuer to adopt the aforesaid relevant requirements and basis in preparing the Property Valuation Report.

We also noted that the conclusion of value therein relied on the use of a number of assumptions. We have reviewed such assumptions and considered them to be general and commonly adopted assumptions in valuation reports. Since no other unusual matters had come to our attention in this respect, we considered the basis and assumptions adopted in the Property Valuation Report to be fair and reasonable.

*(c) Valuation methodology in the Property Valuation Report*

We have discussed with the Independent Property Valuer on the methodology adopted in valuing the Land Use Rights and Building Ownership Rights as at 30 September 2022 and noted they had considered the three generally accepted valuation approaches, namely the income approach, the market approach and the cost approach. Please refer to the paragraphs headed "(c) Valuation methodology in the Enterprise Valuation Report" in this letter above for general descriptions of the three aforesaid approaches.

In the valuation of the Land Use Rights and Building Ownership Rights, the Independent Property Valuer has adopted the cost approach due to the following reasons: (i) the Independent Property Valuer was unable to identify transactions of land properties that are in the proximity of and comparable to the Land, being an industrial land on which only minimal structures were constructed, so the market approach is not practicable; (ii) the income approach was not practicable as in general, industrial lands for self-construction in the PRC were for self-use only, and the Independent Property Valuer was unable to collect market

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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rental data for such lands; and (iii) the cost approach was considered a suitable approach as only guarded gates were constructed on the Land, and sample construction costs and land acquisition costs for lands similar to the Land were available on the market.

*(d) Our analysis on the valuation methodology adopted in the Property Valuation Report*

We have assessed whether the market approach is appropriate for valuing the Land Use Rights and Building Ownership Rights. Nonetheless, we were unable to identify transactions in respect of land properties comparable to the Land in the PRC. Therefore, we agreed that there were insufficient comparable targets with similar conditions for a meaningful comparison, which is a prerequisite for conducting the market approach. Accordingly, we agreed that the market approach is not practicable for valuing the Land Use Rights and Building Ownership Rights.

We also concurred with the self-use nature of the Land and that the income approach was not practicable in valuing the Land Use Rights and Building Ownership Rights.

We also considered that the construction status on the Land was suitable for adopting the cost approach for valuation.

Having considered (i) that the basis and assumptions adopted in the Property Valuation Report were considered fair and reasonable after our review as discussed above; (ii) the aforesaid reasons for not adopting the market approach and the income approach; and (iii) the aforesaid reasons for adopting the cost approach in valuing the Land Use Rights and Building Ownership Rights, we were of the opinion that it is appropriate for the Independent Property Valuer to adopt the cost approach in valuing the Land Use Rights and Building Ownership Rights.

*(e) Valuation of the Land Use Rights and Building Ownership Rights*

The Independent Property Valuer performed separate valuation on each of the Land Use Rights and Building Ownership Rights.

In the valuation of the Land Use Rights, the Independent Property Valuer first referred to the standard unit price of land issued by the local PRC authority in 2019, being the latest issue of the same, in the proximity of the Land. The Independent Property Valuer has then assessed the land market in the proximity of the Land during 2019 up to the prevailing date, and considered that the aforesaid standard unit price of land was still within a reasonable range of the prevailing market prices. As such, the Independent Property Valuer adopted the standard unit price of grade-one land, being the grade of the Land, issued by the local PRC authority of RMB660 per sq. m. as the base of valuation of the Land Use Rights, and proceeded to consider the factors for unit price adjustment, based on the aforesaid standard unit price of land, applicable to the Land Use Rights.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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The factors for unit price adjustment considered by the Independent Property Valuer in respect of the Land Use Rights included (i) transport convenience; (ii) infrastructure comprehensiveness in the proximity; (iii) land use planning restrictions; (iv) level of industry cluster in the proximity; and (v) conditions of the land. The aforesaid factors were further divided into various sub-factors, each carrying a separate range of adjustment coefficients depending on the quality of the target under such sub-factors. After considering all sub-factors for unit price adjustment in respect of the Land Use Rights, the Independent Property Valuer applied an overall adjustment coefficient of +8.44% to the unit price of the Land.

The Independent Property Valuer has also considered the remaining term of land use in respect of the Land of 35 years, which is shorter than the statutory maximum term of lands of 50 years in the PRC. The Independent Property Valuer applied a further adjustment coefficient of -8.0% to the unit price of the Land after adopting a discount rate of 6% comprising risk-free rate of 1.5% based on one-year fixed deposit interest rate and risk premium of 4.5% based on prevailing market conditions and the Independent Property Valuer's experience.

Considering that there was no other necessary adjustment on the unit price of the Land, the Independent Property Valuer valued the acquisition cost of the Land at approximately RMB658 per sq. m. After considering a tax rate of 3.05% applicable to the acquisition of the Land, the unit price of the Land was valued at approximately RMB678 per sq. m.

However, the Independent Property Valuer was of the view that it was unrealistic to consider only the standard unit price of land and relevant adjustments issued by the PRC authorities in determining the cost of the Land, as they may not reflect actual acquisition costs of lands in the market. Therefore, the Independent Property Valuer has then identified three transactions of land properties that, though not in the proximity of the Land, are located in the same city with and have comparable conditions to the Land (the "**Comparable Transactions**") and considered the acquisition costs in the respective Comparable Transactions. For each of the Comparable Transactions, the Independent Property Valuer started with the unit acquisition cost of the land, and continued with an adjustment process, comprising all the sub-factors as set out for the Land above, to eliminate the variations between the Comparable Transactions and the Land to its best effort. After such process, the Independent Property Valuer came to an average after tax unit price of approximately RMB1,592 per sq. m. for the lands under the Comparable Transactions.

After market study, the Independent Property Valuer considered that the market acquisition costs under the Comparable Transactions better reflects the prevailing market conditions. As such, the Independent Property Valuer adopted a weighted average for the unit price of the Land of approximately RMB1,224 per sq. m., where the average after tax unit price of approximately RMB1,592 per sq. m. for the lands under the Comparable Transactions constituted 60% of the weighted average and the unit price of the Land of approximately RMB678 per sq. m. derived from the standard unit price of land issued by the PRC authorities constituted the remaining 40% of the weighted average. We agreed with the Independent Property Valuer's view that the market acquisition costs under the Comparable Transactions better reflects the prevailing market conditions, as they truly reflected the prices at which reasonable buyers and sellers were willing to trade similar land properties at the material time.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Therefore, we agreed that the average after tax unit price of the lands under the Comparable Transactions should weight heavier in valuing the unit price of the Land. Nonetheless, we understood that it was also important to take into account the acquisition cost of the Land derived from the standard unit price of land issued by PRC authorities as the Land was principally intended for own-use but not for market resales. In addition, although the reference standard unit price of land was issued by the local PRC authority in 2019, we noted that the Independent Property Valuer has studied if there has been material fluctuation in the unit prices of similar lands and concluded that they have remained stable since 2019 and hence no further adjustment is necessary. It implied that the reference standard unit price of land issued by the local PRC authority in 2019 is still up-to-date and should be taken into consideration. Having considered both of the above, we considered that a 60:40 weighting ratio of the average after tax unit price of the lands under the Comparable Transactions and the acquisition cost of the Land derived from the standard unit price of land issued by PRC authorities in valuing the unit price of the Land is a balanced and reasonable ratio that could better reflect the prevailing market conditions without neglecting references to standard acquisition cost of the Land.

Based on the weighted unit price of the Land of approximately RMB1,224 per sq. m. and the area of the Land Use Rights of approximately 17,026.39 sq. m., the Land Use Rights was valued at approximately RMB20,840,301.

In the valuation of the Building Ownership Rights, the Independent Property Valuer, after field examination of the two guard gates constructed on the Land, adopted a basic construction cost of approximately RMB1,100 per sq. m., comprising building material costs, installation cost and fixtures. The Independent Property Valuer further took into account other costs including but not limited to electricity system and water pipeline installation expenses and management expenses, and adopted a final cost of the Building Ownership Rights of approximately RMB1,369 per sq. m. Having also considered the construction area of the Building Ownership Rights of 73.07 sq. m., the Building Ownership Rights was valued at approximately RMB100,033.

As such, the aggregate value of the Land Use Rights and Building Ownership Rights was valued at approximately RMB20,940,000 as at 30 September 2022, the record date of the Property Valuation Report, which is close to the amount of RMB20,970,000 adopted as the Consideration of the Equity Interest.

Based on all the above information and documents supplied to us in respect of the valuation of the Land Use Rights and Building Ownership Rights, and having considered that we have not identified any material factors which caused us to doubt the fairness and reasonableness of the principal bases and assumptions adopted for the valuation of the Land Use Rights and Building Ownership Rights, we considered the valuation of the Land Use Rights and Building Ownership Rights to be fair and reasonable.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*(iii) The Consideration and the overall principal terms of the Investment Agreement*

Having considered (i) our due diligence work on the Enterprise Valuation Report and Property Valuation Report as discussed in the sections above; (ii) that the valuations of the Equity Interest and the Land Use Rights and Building Ownership Rights were considered fair and reasonable; (iii) that the Consideration, being the valuation of the Land Use Rights and Building Ownership Rights, was close to the valuation of the Equity Interest; and (iv) that we were not aware of unusual or extraordinary terms and conditions in the Investment Agreement, we were of the opinion that the terms and conditions of the Investment Agreement, including the Consideration for the Acquisition and Disposal, are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

#### **IV. Financial implications of the Acquisition**

Upon completion of the Acquisition, the Land Use Rights and the Building Ownership Rights will be exchanged for the equity interests in the Target Company.

At initial recognition, the net carrying amounts of the Land Use Rights and the Building Ownership Rights (i.e. the Net Carrying Amounts) will be derecognised and the fair value of the equity interests in the Target Company will be recognised and classified as financial assets at fair value through other comprehensive income (i.e. the Fair Value). The difference between the Net Carrying Amounts and the Fair Value will be recognised in profit or loss.

Any change in the Fair Value will subsequently be recognised in other comprehensive income.

#### **RECOMMENDATION**

Having considered the principal factors and reasons discussed above, we are of the opinion that the entering into of the Investment Agreement and the Acquisition and Disposal contemplated thereunder, though not being in the ordinary and usual course of business of the Group, are (i) justifiable, fair and reasonable; (ii) in the interests of the Company and Shareholders as a whole; and (iii) the terms of the Investment Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution(s) to be proposed at the EGM to approve the Investment Agreement and the transactions contemplated thereunder and we recommend the Independent Shareholders to vote in favour of the resolution(s) in this regard.

Yours faithfully,  
For and on behalf of  
**RED SOLAR CAPITAL LIMITED**  
**Leo Chan**  
*Managing Director*

*Mr. Leo Chan is a licensed person and responsible officer of Red Solar Capital Limited registered with the SFC to carry on Type 6 (advising on corporate finance) regulated activity under the SFO and has over 16 years of experience in corporate finance industry.*

*The following is the text of a valuation report prepared for the purpose of incorporation in this circular received from 正衡資產評估房地產估價(福建)有限公司 (Zhengheng Asset Appraisal Property Valuation (Fujian) Co., Ltd.\*), an independent property valuer, in connection with its opinion of value of the Land as at 30 September 2022.*

### **REAL ESTATE APPRAISAL REPORT**

Appraisal Report No.:	Zhengheng [2022] No. FJ02310013
Appraisal Project Name:	Industrial Real Estate Market Value Appraisal for the whole block of Guard Room No. 2 and all land use rights involved in for investment decisions, which are owned by 飛毛腿電池有限公司 (Scud Battery Co., Ltd.*) and located at the Scud Battery Industrial Park, No. 135 Rujiang East Road, Mawei Town, Mawei District, Fuzhou City
Appraisal Client:	飛毛腿電池有限公司 (Scud Battery Co., Ltd.*)
Appraisal Agency:	正衡資產評估房地產估價(福建)有限公司(Zhengheng Asset Appraisal Property Valuation (Fujian) Co., Ltd.*) (Room 01, 15/F Zhongmei Building, Gutian Road, Shuibu Street, Gulou District, Fuzhou City, Fujian Province)
Certified Real Estate Appraisers:	Zou Shuihong (Registered No. :3520070029) Yin Hui (Registered No. :3520070026)
Appraisal Report Issuance Date:	7 November 2022
Effective Date:	30 September 2022

*Notes:*

Ms. Zou Shuihong is a registered real estate appraiser and land appraiser in China. She has been engaged in real estate, land, asset appraisal and other appraisal businesses for more than 20 years. She has participated in various asset appraisal projects, with rich project appraisal experience particularly in real estate. Ms. Zou is also one of the appraisal experts of Ningde Natural Resources Bureau. Ms. Zou has been working as an appraiser at 正衡資產評估房地產估價(福建)有限公司(Zhengheng Asset Appraisal Property Valuation (Fujian) Co., Ltd.\*) since 2002. She serves as the departmental manager of Business Department No. 2, and she has handled appraisal projects involving bank, enterprise, personal, finance, judicial, expropriation department, governmental department.

Ms. Yin Hui is a registered real estate appraiser, land appraiser, asset appraiser in China, and a member of the China Institute of Real Estate Appraisers and Agents. She has been engaged in real estate, land, asset appraisal and other appraisal businesses for 23 years. She has participated in various asset appraisal projects, with rich project appraisal experience particularly in real estate. She is one of the experts of Fujian Real Estate Appraisal Committee and Fuzhou Real Estate Appraisal Association. Ms. Yin has worked in 正衡資產評估房地產估價(福建)有限公司 (Zhengheng Asset Appraisal Property Valuation (Fujian) Co., Ltd.\*) for over 20 years. She has handled appraisal projects involving bank, enterprise, personal, finance, judicial, expropriation department, governmental department.

\* For identification purpose only

## LETTER TO CLIENT OF APPRAISAL ENTRUSTMENT

Zhengheng [2022] No. FJ02310013

飛毛腿電池有限公司 (Scud Battery Co., Ltd.\*):

According to your entrustment, the appraisers Zou Shuihong (registration number: 3520070029), Yin Hui (registration number: 3520070026) and Zheng Anqi appraised the following real estates. In accordance with the requirements of laws, regulations and policies issued by the state and local governments, as well as the information available to the Company, for the appraisal purpose, following the appraisal principles, adopting scientific methods, and combining with the real estate market condition, the analysis and calculation are as follows:

**Table of General Information of Real Estate of the Appraisal Object and Market Valuation Appraisal Results****Table 1**

Appraisal purpose	The appraisal object refers to the market value of real estate, which is proposed to be provided as market value reference for real estate investment decisions		
Appraisal object	The industrial real estate including the whole block of Guard Room No. 2 and all land use rights located at the Scud Battery Industrial Park, No. 135 Rujiang East Road, Mawei Town, Mawei District, Fuzhou City		
Property scope	Including 2 buildings (including indoor secondary decoration), the state-owned land use right of a whole parcel land (including land premium), the greening landscape, walls, roads and other ancillary facilities in the plant area, excluding machinery and equipment, other movable properties and creditor's rights and debts in the plant area		
Total gross floor area	73.07 m <sup>2</sup>	Total site area	17,026.39 m <sup>2</sup>
Property usage	Industrial purpose	Land purpose	Industrial land
Nature of land use right	Transfer	Structure	Brick concrete
Appraisal time point	30 September 2022	Owner	飛毛腿電池有限公司 (Scud Battery Co., Ltd.*)
Time of completion	December 2021	Appraisal method	Cost method
Appraisal type	Market valuation	Unit price	Land use right RMB1,224/m <sup>2</sup> Buildings RMB1,369/m <sup>2</sup>
Market valuation (rounding amount)	(Amount in words) Say RMB twenty million nine hundred forty thousand only (¥20,940,000)		

**Special note:** This report is only provided to the client for the appraisal purpose referred therein. The right of use of the report belongs to the client. Without the written permission of the Company, the appraisal report is not allowed to be provided to relevant parties for the appraisal purpose and to the units and individuals for inspection apart from competent authorities which are entitle to according to laws, regulations and policies. Please read the full text of the appraisal report for details.

Legal representative:  
正衡資產評估房地產估價(福建)有限公司  
(Zhengheng Asset Appraisal Property Valuation (Fujian) Co., Ltd.\*)

7 November 2022

\* *For identification purpose only*

**CONTENT**

Statement of Appraisers . . . . . APP I-5

Assumptions and Limitations of Appraisal . . . . . APP I-5

Real Estate Appraisal Results Report . . . . . APP I-7

I. Appraisal Client . . . . . APP I-7

II. Real Estate Appraisal Agency . . . . . APP I-7

III. Appraisal Purpose . . . . . APP I-7

IV. Appraisal Object . . . . . APP I-7

V. Appraisal Time Point . . . . . APP I-10

VI. Appraisal Type . . . . . APP I-10

VII. Appraisal Principle . . . . . APP I-11

VIII. Appraisal Basis . . . . . APP I-11

IX. Appraisal Method . . . . . APP I-12

X. Appraisal Results . . . . . APP I-13

XI. Certified Real Estate Appraisers . . . . . APP I-13

XII. On-site Survey Period . . . . . APP I-13

XIII. Appraisal Operation Period . . . . . APP I-14

Appendix. Description of and Analysis on Appraisal Object . . . . . APP I-15

**STATEMENT OF APPRAISERS**

We, with our expertise and professional ethics, hereby solemnly make the following statement:

1. The description about the matters in the appraisal report is true and accurate, without false records, misleading statements or significant omissions.
2. The analysis, comments and conclusions in the appraisal report are our independent, objective and fair professional analysis, comments and conclusions, however, they are established only under the appraisal assumptions and limitations set out in the appraisal report.
3. We have no actual or potential interests with the appraisal object in the appraisal report, nor do have any interests with the appraisal client or interested parties of the appraisal.
4. We have no prejudice against the appraisal object, the appraisal client or interested parties of the appraisal in the appraisal report.
5. We analyzed, formed opinions and conclusions and prepared the appraisal report in accordance with the Code for Real Estate Appraisal (national standards of the People's Republic of China (GB/T 50291-2015)) and the Basic Terminology Standard for Real Estate Appraisal (national standards of the People's Republic of China (GB/T 50899-2013)).

**ASSUMPTIONS AND LIMITATIONS OF APPRAISAL****I. Assumptions of Appraisal****(I) General assumptions**

1. We have prudently reviewed the materials provided by the appraisal client, but have not verified them. It is assumed that all the materials provided by the appraisal client are true, complete and effective, and the appraisal object could be freely transferred in the open market.
2. The appraisers have paid attention to the major factors affecting the value of the appraisal object, such as the property safety of the appraisal object. After on-site survey and based on conventional judgment, it is assumed that the property quality is safe and can be used normally within the service life or the land use life.
3. Through on-site survey and observation, the area of the appraisal object is equivalent to that referred in the Real Estate Ownership Certificate.
4. The appraisal takes 30 September 2022 as the value time point, which is specified in the Entrustment Letter of the appraisal client. The date of on-site survey is 12 July 2022, which is inconsistent with the value time point. The appraisal assumes that the physical

condition of the appraisal object at the value time point is the same as the physical condition at the time point of on-site inspection by the appraiser, and there is no significant change that may affect the value.

**(II) *Undetermined assumptions***

There is no undetermined assumption.

**(III) *Inconsistent assumptions***

There does not have any inconsistent assumption.

**(IV) *Assumptions deviating from the fact***

There does not have any assumption deviating from the fact.

**(V) *Assumptions about insufficient basis***

The appraisal client has not provided relevant planning data of the appraisal land, the appraisers could not be aware of the planned plot ratio of the appraisal land. According to the ratio of the GFA of the completed buildings thereon on the survey date to the site area of the appraisal land, the actual plot ratio of the appraisal land is estimated to be less than 1, thus the appraisal assumes that the appraisal object is less than 1.

**II. Use Restrictions of The Report**

- (1) The appraisal report is only used for the purpose of the appraisal and is not used for any other purpose.
- (2) The user of the appraisal report is the appraisal client. When using the appraisal report, the user should not take it out of context.
- (3) Without the written permission of the appraisal agency, no unit or individual may publish the whole or part of the appraisal report on any public media.
- (4) The real estate appraisal report can only be used after being stamped with the official seal of the appraisal agency, signed (or sealed) by the legal representative and signed by two certified real estate appraisers.
- (5) The service life of the appraisal report is valid within one year from the date of issuance of the appraisal report.

**REAL ESTATE APPRAISAL RESULTS REPORT**

Zhengheng [2022] No. FJ02310013

Entrusted by the appraisal client, the Company has appraised the appraisal object. The appraisal results are reported as follows:

**I. Appraisal Client**

Name: 飛毛腿電池有限公司 (Scud Battery Co., Ltd.\*)

Address: No. 98 Jiangbin East Avenue (in the pilot free trade zone), Mawei District, Fuzhou City

Legal Representative: Ni Chenhui

**II. Real Estate Appraisal Agency**

Name: 正衡資產評估房地產估價(福建)有限公司 (Zhengheng Asset Appraisal Property Valuation (Fujian) Co., Ltd.\*)

Address: Room 01, 15/F Zhongmei Building, No. 107 Gutian Road, Shuibu Street, Gulou District, Fuzhou City, Fujian Province

Legal Representative: Yin Hui

Unified social credit Code: 913500007051001407

Qualification Level: Real Estate Appraisal Company Registration Level 1 (Certificate No.: 352018006)

**III. Appraisal Purpose**

The appraisal object refers to the market value of real estate, which is proposed to be provided as market value reference for real estate investment decisions.

**IV. Appraisal Object****(I) Property scope of the appraisal object**

Including 2 buildings (including indoor secondary decoration), the state-owned land use right of a whole parcel land (including land premium), the greening landscape, walls, roads and other ancillary facilities in the plant area, excluding machinery and equipment, other movable properties and creditor's rights and debts in the plant area.

*(II) General information of the appraisal object***Table of General Information of the Real Estate of the Appraisal Object****Table 2**

Name/location	The industrial real estate including the whole block of Guard Room No. 2 and land use rights located at the Scud Battery Industrial Park, No. 135 Rujiang East Road, Mawei Town, Mawei District, Fuzhou City		
Real estate ownership certificate No.	Min [2022] Fu Zhou Shi Ma Wei Qu Bu Dong Chan Quan No.9005972		
Owner	飛毛腿電池有限公司 (Scud Battery Co., Ltd.*)	Ownership status	Independent ownership
Property use	Industrial (guard room)	Land use	Industrial land
Ownership type	State-owned construction land use right/property ownership		
Ownership nature	Transfer/self-constructed property		
Size	Site area: 17,026.39 m <sup>2</sup> /GFA: 73.07 m <sup>2</sup>		
Service life	State-owned land use term: commencing from 31 December 2006 and ending on 30 December 2056		
Other information of the ownership	Whole block of guard room No. 2: GFA: 73.07 m <sup>2</sup> ; proprietary area: 73.07 m <sup>2</sup> ; use: industrial (guard room)		
Remarks	How to obtain: change		

*(III) General information of land***Table of General Information of Land****Table 3**

Adjacency	The appraisal object is adjacent to Fujian Forecam Optics Co., Ltd.* (福建福光股份有限公司) in the east, Feitou Road in the west, Jiangbin East Avenue in the south and Rujiang East Road and Longyuan International Cultural and Creative Center in the north
Shape	In a relatively regular shape
Terrain	Relatively flat and with relatively good carrying capacity
Land use	Industrial
Land use term	The expiration date of the land use right is 30 December 2056; and the remaining land use life is 34 years as of the value time point.
Development degree	Water supply, drainage, access, electricity and communication have been provided outside the land parcel, and the land has been flatted inside the land parcel.
Planning conditions	The appraisal assumes that the plot ratio is less than 1

*(IV) General information of buildings*

The appraisal object has a total of 2 buildings, including 2 completed guard rooms, the remaining buildings have not commenced construction. Please refer to table 4 for details of main condition of buildings.

## Table of General Information of Buildings

Table 4

Name of building	Structure	Facilities and equipment	Time of completion	Description	GFA	Degree of newness
Guard room	Single-level brick concrete structure	With a comprehensive set of facilities including water supply, electricity, telecommunication, etc.	December 2021	The exterior walls are faced with stone, with a floor height of 3 meters, vitrified tile floor, concrete painting interior walls and ceilings, aluminum alloy windows and security doors, and the interior is equipped with a rest room. According to the on-site survey by the appraisers, the building foundation is stable, no obvious uneven settlement is found, the structural components and building components are in good condition, and the overall maintenance of the building is in good condition.	73.07 m <sup>2</sup>	The building has not been put into use at the appraisal time point, and it is in a brand-new state, so the degree of newness is 100%

**V. Appraisal Time Point**

The time point of the report is 30 September 2022. According to the appraisal purpose and the Appraisal Entrustment Letter, the date is defined as the appraisal time point.

**VI. Appraisal Type***(I) Name of appraisal type*

The appraisal type adopted is market value.

*(II) Definition of value*

The value refers to a price at which the appraisal object, after being properly marketed, is voluntarily and fairly transacted at the valuation time point by well-informed transacting parties who act cautiously and are not forced to transact.

***(III) Value embedded***

The value embedded refers to the value of the appraisal object, including the completed buildings and structures (including indoor secondary decoration), all land use right (including land premium), the greening landscape, walls, roads and other ancillary facilities in the plant area at the value time point and satisfying the assumptions and limitations of appraisal, excluding machinery and equipment, other movable properties and creditor's rights and debts and other interests in the plant area.

**VII. Appraisal Principle**

The appraisal has complied with the following principles:

1. Principle of independence, objectivity and impartiality. It is required to stand in a neutral position and evaluate the value or price that is fair and reasonable to all interested parties in a realistic and fair manner.
2. Principle of Legality. The principle that the appraisal result is the value or price of the appraisal object determined according to law.
3. Value time point principle. It is required that the appraisal result is the value or price determined at a specific time according to the appraisal purpose.
4. Substitution principle. The principle that the value or price deviation between the appraisal result and the similar real estate of the appraisal object under the same conditions is within a reasonable range.
5. Principle of highest and best utilization. The principle that the appraisal result is the value or price under the highest and best utilization conditions of the appraisal object.

**VIII. Appraisal Basis*****(I) Relevant laws, regulations and documents relating to the appraisal***

1. Civil Code of the People's Republic of China (passed at the third meeting of the thirteenth session of the National People's Congress on 28 May 2020, released under Presidential Decree No.45 of the People's Republic of China and comes into force since 1 January 2021);
2. Asset Appraisal Law of the People's Republic of China (Presidential Decree No.46 of the People's Republic of China, 2 July 2016);
3. Law of the People's Republic of China on the Administration of Urban Real Estate (Presidential Decree No.32 of the People's Republic of China, amended for the third time on 26 August 2019);

4. Land Administration Law of the People's Republic of China (Presidential Decree No.32 of the People's Republic of China, amended for the third time on 26 August 2019);
5. Updated Results of the Benchmark Land Premium for Towns in Mawei District, Fuzhou City in 2019 (Rong Ma Zheng [2021] No. 20).

**(II) Basis of appraisal standards**

1. National Standards of the People's Republic of China - Code for Real Estate Appraisal (GB/T 50291- 2015);
2. Specification for Basic Terms of Real Estate Appraisal (GB/T 50899-2013);
3. Regulations on Urban Land Appraisal (GB/T 18508-2014).

**(III) Data provided by the appraisal client**

1. The Appraisal Entrustment Letter;
2. The copy of the Real estate ownership certificate (Min [2022] Fu Zhou Shi Ma Wei Qu Bu Dong Chan Quan No.9005972) provided by the appraisal client.

**(IV) Data collected by appraisal institutions and certified real estate appraisers**

1. Relevant data available to the Company and data obtained by appraisers from on-site survey;
2. Cost information of construction projects in Fuzhou City;
3. The Budget Quota of Fujian Province Property Construction and Fitting-out Projects (《福建省房屋建築與裝飾工程預算定額》) (FJYD-101-2017), the Budget Quota for Fujian Province General Fitting-out Projects (《福建省通用安裝工程預算定額》) (FJYD-301-2017~FJYD-311-2017), the Budget Quota of Fujian Province Construction and Fitting-out Projects (《福建省建築安裝工程費用定額》) (2017 version), and quota adjustment, manual unit price adjustment documents, the Project Cost Information of Fujian Province, the Technology and Economy Indicators of Construction Projects of Fuzhou City announced by the Department of Construction of Fujian Province, as well as recent information price of local materials at the value time point.

**IX. Appraisal Method**

The cost method (individual appraisal of real estates) was applied for the appraisal.

The cost method refers to the method to calculate the replacement cost or reconstruction cost and depreciation of the appraisal object at the value time point, and obtain the value or price of the appraisal object after the deduction of the depreciation from the replacement cost or reconstruction cost.

**X. Appraisal Results**

In accordance with relevant laws, regulations, policy documents and appraisal standards, based on relevant information provided by the appraisal client and those available to the appraisal agency and the certified real estate appraisers, and for the appraisal purpose, the appraisers followed the principles of appraisal, applied the cost method for analysis, measurement and judgment. Under the premise of meeting the appraisal assumptions and limitations, the appraisal results of the appraisal object at the value time point (30 September 2022) are set out in the table below in detail:

**Table of Real Estate Market Value Appraisal Summary of the Appraisal Object**

**Table 5**

<b>Appraisal results</b>	<b>Unit price</b>	<b>Total price</b>
Market value of the Appraisal Object	Land use right RMB1,224/m <sup>2</sup> Buildings RMB1,369/m <sup>2</sup>	(Amount in words) Say RMB twenty million nine hundred forty thousand only (¥20,940,000)

The value embedded refers to the value of the appraisal object, including the completed buildings and structures (including indoor secondary decoration), land use right (including land premium), the greening landscape, walls, roads and other ancillary facilities in the plant area at the value time point and satisfying the assumptions and limitations of appraisal, excluding machinery and equipment, other movable properties and creditor's rights and debts and other interests in the plant area.

**XI. Certified Real Estate Appraisers**

**Certified real estate appraisers involved in the appraisal**

<b>Name</b>	<b>Registration No.</b>
Zou Shuihong	3520070029
Yin Hui	3520070026

**XII. On-site Survey Period**

On-site survey date of the appraisal: 12 July 2022.

**XIII. Appraisal Operation Period**

Appraisal Operation Period: from 12 July 2022 to 7 November 2022.

Appraisal Agency:  
正衡資產評估房地產估價(福建)有限公司  
(Zhengheng Asset Appraisal Property Valuation (Fujian) Co., Ltd.\*)

7 November 2022

\* *For identification purpose only*

## Appendix - Description of and Analysis on Appraisal Object

*(I) Description of and analysis on location conditions**1. Location*

Location condition table

Table 1

Item	Description and analysis
1. Location	Located at No. 135 Rujiang East Road, Mawei Town, Mawei District, Fuzhou City
2. Position	The appraisal object is located in Kuai'an Industrial Zone (快安工業區), Mawei District, Fuzhou City. The site is adjacent to Fujian Forecam Optics Co., Ltd.* (福建福光股份有限公司) to the east, Feitou Road to the west, Jiangbin East Avenue to the south and Rujiang East Road to the north
3. Distance to important places	Approximately 2 km from the People's Government of Mawei District
4. Street (road) frontage	The site fronts on Jiangbin East Avenue, which is a main road. The road frontage is in good condition
5. Industrial agglomeration	The appraisal object is located in Kuai'an Industrial Zone (快安工業區), Mawei District, Fuzhou City, where a number of industrial enterprises are concentrated, such as Potevio Guomai Networks Ltd.* (普天國脈網絡科技有限公司), Fujian Flaircomm Microelectronics, Inc.* (福建慧翰微电子股份有限公司), and Fuzhou Kezhi Transporter Co., Ltd.* (福州科智输送机有限公司). There is a high degree of industrial agglomeration

2. *Traffic*

Traffic condition table

Table 2

Item	Description and analysis
1. Road condition	There are main road and secondary road in the area, such as Jiangbin East Avenue and Rujiang East Road. Several bus lines including No. 37, No. 58, No. 139 and No. 137 are passing through the area. The site is close to the bus stop of the Development Zone Taxation Bureau, is well served by roads and is convenient for transportation of goods
2. Access to available transportation	Transportation available in the area includes buses, small cargo vehicles, pickup trucks, container trucks, and others
3. Traffic control	There are no pedestrian streets, one - way streets, vehicle restrictions and other traffic controls
4. Convenience of parking	There are plenty of open spaces in the factory area. The parking is convenient

3. *External supporting facilities*

External supporting facilities table

Table 3

Item	Description and analysis
1. Infrastructure	Infrastructures including access, water supply, drainage, electricity and communication have been provided in the area, and the infrastructure is relatively complete.
2. Public service facilities	There are Mawei District Xiade Kindergarten, Xiade Farmers' Market and Fuzhou Mingcheng Yuehua Hotel in the area, but the public service facilities are in average condition.

4. *Surrounding environment*

Surrounding environment table

Table 4

Item	Description and analysis
1. Natural environment	Fuzhou is located at the southeastern edge of the Eurasian continent, east of the Pacific Ocean. There is a typical subtropical humid monsoon climate with long summers and short winters. Frost is relatively rare in the region. There is a frost - free period of more than 300 days in a year in most of the areas, except for the higher altitude mountains. There are rich climatic resources, with suitable temperature, sufficient rainfall, evergreen seasons and a good natural environment
2. Humanistic environment	The quality of the residents living in the surrounding area is average, the security situation is average, and the humanistic environment is average
3. Landscape	The greening rate in the area is average, but its proximity to Minjiang River makes the landscape environment better

5. *Location advantages and disadvantages*

After comprehensive analysis on the location, transportation, external ancillary facilities and environmental conditions of the appraisal object, it is considered that the overall location of the appraisal object is good and has a favorable impact on the value of the appraisal object.

*(II) Description of and analysis on physical condition**1. Description of and analysis on the physical condition of the land*

Table of physical condition of land

Table 5

Item	Description and analysis
1. Name	Land use right of Scud Battery Industrial Park, No.135 Rujiang East Road, Mawei Town, Mawei District, Fuzhou
2. Adjacency	The site is adjacent to Fujian Forecam Optics Co., Ltd.* (福建福光股份有限公司) to the east, Feitou Road to the west, Jiangbin East Avenue to the south and Rujiang East Road to the north
3. Area	The area covered by the land use right is 17,026.39 m <sup>2</sup>
4. Shape	The shape of the appraisal object is regular, which is conducive to building layout
5. Topography	The topography is relatively flat
6. Terrain	The site is basically level with the surrounding land, with smooth natural drainage and less possibility of being flooded and waterlogged, which has a favorable impact on the value of the appraisal object
7. Geology	Strong load - bearing capacity and good geological conditions
8. Soil	Not polluted
9. Development	Water supply, drainage, access, electricity and communication have been provided, with flat foundation within the red line
10. Use	Industrial land

2. *Description of and analysis on the physical condition of the building*

Table of the physical condition of the building

Table 6

Item	Description and analysis
1. Name	The entire real estate of the Guard Room 2, Scud Battery Industrial Park, No.135 Rujiang East Road, Mawei Town, Mawei District, Fuzhou City
2. Building scale	Only the guard room was built in the factory area at the time of appraisal, the rest of the industrial plants were not started, the overall scale is average
3. Building structure	The guard room is in a brick and mortar structure
4. Facilities and equipment	Complete indoor facilities such as water, electricity, communication and others
5. Decoration	The exterior wall of the guard room is stone, the floor is glass tile, the interior wall and the ceiling are cement paint
6. Story height	3 meters
7. Building function	Good condition of waterproof, heat preservation, heat insulation, sound insulation, ventilation, lighting and sunlight
8. Engineering quality	Real Estate Ownership Certificate has been obtained, and the quality of the completed project of guard room is qualified
9. Appearance	The external wall of the building is stone
10. Completion	The appraisal object was completed in December 2021
11. Newness	After the in - site survey by the Appraiser, it's believed that the load - bearing structures of the building are intact, the beams and columns are not tilted and deformed; no cracks on the walls; no obvious uneven sinking of foundation; doors and windows are in good condition and are flexible; water and sewage pipes and sanitary fittings are basically intact; power supply lines and installations are complete; equipment and facilities are in good use; it is under normal use and maintenance, in a good maintenance and use; and it is in good condition with high rate of newness. Please refer to Table 7 for details
12. Property management	The factory area of the appraisal object has a guard room and is managed by the factory itself in a closed manner. The property management is good

List of physical condition of the building

Table 7

Name of building	Structure	Facilities and equipment	Time of completion	Description	GFA	Degree of newness
Guard room	Single-level brick concrete structure	With a comprehensive set of facilities including water supply, electricity, telecommunication, etc.	December 2021	The exterior walls are faced with stone, with a floor height of 3 meters, vitrified tile floor, concrete painting interior walls and ceilings, aluminum alloy windows and security doors, and the interior is equipped with a rest room. According to the on-site survey by the appraisers, the building foundation is stable, no obvious uneven settlement is found, the structural components and building components are in good condition, and the overall maintenance of the building is in good condition.	73.07 m <sup>2</sup>	The building has not been put into use at the appraisal time point, and it is in a brand-new state, so the degree of newness is 100%

**(III) Description of and analysis on equity status**

*Equity status table*

Table 8

Item	Description and analysis
1. Use	The use of the land in the appraisal object is industrial, and the use of the house (guard room) is industrial
2. Planning use	Planning use is industrial land
3. Ownership	The ownership of land is state - owned, and the owner of the house is 飛毛腿電池有限公司 (Scud Battery Co., Ltd.*)

Item	Description and analysis	
4. Land use rights	The Real Estate Ownership Certificate has been obtained. The owner of the land use right is 飛毛腿電池有限公司 (Scud Battery Co., Ltd.*). The type of land use right is transfer. The expire date of land use right is 30 December 2056. The remaining land use life at the time of appraisal is 34 years	
5. Common ownership	Separate ownership	
6. Establishment of usufruct rights	No easement, land contract right, land right and other usufruct right has been established	
7. Establishment of a security right	The establishment of security right is not considered in the Appraisal	
8. Lease or possession	The property is partially used by the owner with no lease or occupation	
9. Arrears of taxes and fees	No tax default.	
10. Seizure and other forms of restriction of rights	No restriction of rights in any form of seizure and others	
11. Clarity of ownership	The appraisal object has obtained the Real Estate Ownership Certificate, and the ownership is clear and undisputed	
12. Land	(1) Date of acquisition	22 June 2006
	(2) Cost of acquisition	RMB3,658,926.61
	(3) Total cost	RMB3,658,926.61
13. Buildings	(1) Date of construction	21 December 2021
	(2) Cost of construction	RMB494,943.80
	(3) Total cost	RMB494,943.80

\* For identification purpose only

*The following is a summary of a valuation report prepared for the purpose of incorporation in this circular received from 聯合中和土地房地產資產評估有限公司 (United Zhonghe Land Real Estate Asset Appraisal Co., Ltd.\*), an independent enterprise valuer, in connection with its opinion of value of the Target Company as at 31 December 2021.*

**I. THE CLIENT, APPRAISED ENTITY AND OTHER USERS OF THE ASSET VALUATION REPORT AS AGREED IN THE ASSET VALUATION ENGAGEMENT CONTRACT**

Client: 飛毛腿電池有限公司 (Scud Battery Co., Ltd.\*)

Appraised entity: 福建飛毛腿動力科技有限公司 (Fujian Scud Power Technology Co., Ltd.\*)

This asset valuation report shall only be used by the client, the client's regulatory authorities and users of the asset valuation report as required by national laws and regulations, and shall not be used or relied upon by any other third parties.

**II. Purpose of Valuation:** 飛毛腿電池有限公司 (Scud Battery Co., Ltd.\*) proposes to invest in 福建飛毛腿動力科技有限公司 (Fujian Scud Power Technology Co., Ltd.\*) with land use rights, which requires asset valuation of the value of the entire shareholders' equity of 福建飛毛腿動力科技有限公司 (Fujian Scud Power Technology Co., Ltd.\*) involved in the economic behavior, provide reference for the economic behavior of 飛毛腿電池有限公司 (Scud Battery Co., Ltd.\*) to invest with land use rights.

**III. Valuation Target and Scope:** The valuation target of the asset valuation is the value of the entire shareholders' equity of 福建飛毛腿動力科技有限公司 (Fujian Scud Power Technology Co., Ltd.\*). The valuation scope of the asset valuation covers all the assets and liabilities declared by 福建飛毛腿動力科技有限公司 (Fujian Scud Power Technology Co., Ltd.\*) and audited by Fujian Jonchern Public Accounting Firm, Ltd. (福建眾誠有限責任會計師事務所) as at 31 December 2021.

**IV. Valuation Benchmark Date:** 31 December 2021.

**V. Type of Value:** Market value.

**VI. VALUATION METHODS**

**(I) Selection of Valuation Methods**

1. Income approach refers to the approach in which the expected return of the valuation target shall be capitalized or discounted so as to determine its value. The following basic preconditions shall be met for application of the income approach:
  - (1) the future earnings of the valuation target are predictable and can be measured by currency;
  - (2) the risks of obtaining the prospective earnings are predictable and can be measured by currency;

- (3) the number of years with prospective earnings of the valuation target is predictable.
2. Market approach refers to the approach in which the valuation target shall be compared with other comparable listed companies or transactions so as to determine the value of the valuation target. The following basic preconditions shall be met for application of the market approach:
  - (1) there is an active open market with sufficient market data;
  - (2) there are comparable transaction cases with reasonable comparative basis in the open market;
  - (3) it is able to collect relevant information of comparable transaction cases.
3. Asset-based approach refers to the approach in which, based on the balance sheet of the valuation target on the valuation benchmark date, the value of identifiable assets and liabilities on-and off-balance sheet shall be reasonably appraised so as to determine the value of the valuation target. The following basic preconditions shall be met for application of the asset-based approach:
  - (1) the valuation target is in continuous use;
  - (2) it is possible to investigate the current ways to obtain the valuation target purchased and constructed and the corresponding social average cost data.
4. Selection of valuation methods

Market approach: As it is not possible to collect eligible comparable transaction market cases similar to the appraised entity, the market approach is not applicable to the asset valuation.

Income approach: Based on the understanding of the current operation status, plans and development plans of the appraised entity, as well as the research and analysis of the relevant industries and markets on which the appraised entity depends, the appraised entity has predictable capabilities of continuous operation and profitability in the future, which can be measured in currency. Therefore, the income approach can be used for appraisal.

Asset-based approach: The asset-based approach refers to the valuation concept of determining the value of the valuation object based on reasonable valuation of all assets and liabilities of the

appraised enterprise. Details of each asset and liability item could be collected in the appraisal. Therefore, the asset-based approach is applicable to the appraisal.

## **(II) Asset-based Approach**

On the basis of the asset valuation of each individual asset and liability of the appraised entity, the asset appraisal professionals calculate the appraisal value of shareholders' equity by deriving separately and adding up the appraised value of each asset, and then deducting the liabilities.

In the process of asset valuation, asset appraisal professionals adopt different asset valuation methods according to the specific conditions of various assets and liabilities, as follows:

### **1. *Appraisal of current assets***

The accounting for current assets within the valuation scope includes monetary funds, notes receivable, accounts receivable, prepayments, other receivables and inventory.

#### *(1) Appraisal of monetary capital*

The accounting for monetary funds of the appraised entity includes cash, bank deposits and other monetary funds. For cash, the asset appraisal professionals checked the cash on hand at the appraisal site of the appraised entity on working days, and verified through backward calculation of the cash amount as at the valuation benchmark date based on the cash flow in the period from the valuation benchmark date to the date of reckoning. For bank deposits and other monetary funds, the asset appraisal professionals checked the book amount of bank deposits with bank statements, and verify with the letter from banks. After each item is verified to be correct, the appraised value is determined at the book value confirmed by the verified audit report.

#### *(2) Appraisal of receivables (accounts receivable, prepayments, other receivables)*

The asset appraisal professionals verified receivables by consulting relevant account books, vouchers, business contracts, and by other means such as obtaining confirmations for large amounts. With the help of historical information and on-site investigation and verification, they specifically analyzed the amount of creditor's rights, the time and reasons for arrears, the recovery of payment, the funds, credit and management status of the debtors. On this basis, the appraised value of the receivables is determined at the estimated recoverable amount.

#### *(3) Appraisal of notes receivable*

Notes receivable refer to commercial bills received by enterprises for providing products. The notes receivable included in the valuation scope are bank acceptance bills. For notes receivable, the asset appraisal professionals verified the book records,

consulted the notes receivable register, conducted inventory checks on the notes, examined the original records such as the corresponding sales contracts, and determined the appraised value at the book value confirmed by the verified audit report.

(4) *Inventory accounting includes raw materials, finished goods and goods in process.*

- ① Raw materials are mainly purchased raw materials, and the appraised value is determined according to the use of raw materials and stock ageing.
- ② The accounting for goods in process covers the products that are being manufactured by the enterprise and have not yet been completed. Considering that the value of raw materials consumed in the production of goods in progress has little change recently, and the labor cost standard is the same as that on the valuation benchmark date, the appraised value is determined as the verified book value.
- ③ For inventory goods, the appraised value is determined using the selling price inversion method based on the estimated selling price of the enterprise at the benchmark date, less relevant taxes and surcharges, selling expenses and income tax, and also based on the popularity of the products, less the net profit discount rate.

## 2. *Appraisal of long-term equity investment*

The asset appraisal professionals firstly verified the authenticity and integrity of the long-term equity investment through the reason of long-term equity investment, verification of book value and actual situation with reference of investment agreement, resolution of shareholder meeting and prospectus, etc., and evaluated the appraised entity on this basis. The valuation method is as follows:

Due to the limited access to information on the domestic property rights transaction market at present, it is difficult to obtain sufficient comparable listed companies or comparable transaction cases, and therefore the market approach is not applicable to the asset appraisal.

As 江蘇飛毛腿動力科技有限公司 (Jiangsu Scud Power Technology Co., Ltd.\*), a non wholly-owned subsidiary of the appraised entity, is planned to close down in 2022 and is currently not conducting business, the income approach is not appropriate to the asset appraisal.

As the information on all assets and liabilities within the valuation scope of the appraised entity are completely collected, the asset-based approach is appropriate to the asset appraisal.

According to Article 23 of the Practice Guidelines for Asset Valuation – Asset Valuation Methodology, when the following circumstances exist, the asset appraisal professionals may adopt one valuation method: (II) as the valuation target only meets the applicable conditions of one valuation method, one appraisal method is adopted. Therefore, the asset-based method is adopted for the asset appraisal.

Determination of the appraised value of long-term equity investment: Without considering the impact of liquidity, control and minority interest premium and discount factors on the valuation target, the appraised value of long-term equity investment was determined by multiplying the percentage of shareholding by the appraised value of all shareholders' equity of the appraised entity.

### 3. *Valuation of fixed assets - equipment*

According to the appraisal purpose determined and value type adopted by this specific economic behavior, appraisal object, market conditions during valuation, data collection and the value basis of main technical and economic indicators, as no sufficient recent comparable practice for similar assets is available, the market approach is not applicable; as the revenue of appraised assets is unable to presented individually from the revenue of the company, the income approach is not applicable; the cost approach is mainly applied for the appraisal upon applicability judgment and taking into consideration of the characteristics of the appraised equipment.

According to Article 23 of the Practice Guidelines for Asset Valuation - Asset Valuation Methodology, in case of any of the following circumstances, asset appraisal professionals can adopt an appraisal approach: (2) the appraisal object only meets the applicable conditions of one appraisal approach, one appraisal approach is adopted. Therefore, the cost approach is adopted for the asset valuation of equipment.

#### (1) *Machinery and equipment*

##### ① Determination of replacement cost

Replacement cost = purchase price of equipment (inclusive of tax) + transportation expense + installation and testing fee

Determination of purchase price: it is determined with reference to relevant quotation manual or the inquiry price upon market investigation

Determination of transportation expense: it is determined based on factors such as the distance between the producer/seller of equipment and the user enterprise, size (whether it can be packaged into the container or in bulk), weight and price of the equipment and the type of transportation vehicle used (as the case may be).

Determination of installation and testing fee: it is determined in the following ways: First to confirm if the price of professional equipment includes free on-site installation and testing by the producer; if not, the fee is determined by standard fee of equipment of various specialty nature under the requirement of various industries after taking into consideration the complexity and technical requirements of equipment installation; or the fee is determined based on the actual installation and testing fee of equipment after investigation and being informed of. No installation and testing fee is considered for equipment of small size and without installation requirement.

② Determination of newness rate

The comprehensive newness rate is reasonably determined by on-site inspection of usage, making enquiry with relevant technical staff and operation maintenance staff about the technical condition, number of overhaul and maintenance of the equipment and considering the actual requirement of useful life of various equipment and serviced life of the equipment. The newness rate for the appraisal is determined by adopting the newness rate under the service life approach and on-site inspection approach.

The newness rate under the service life approach = (economic useful life – serviced life) ÷ economic useful life × 100%

(2) *Valuation of vehicles*

According to the purpose of the appraisal, based on the principle of continuity of use and the market price, combined with the characteristics of the entrusted assets and the information collected, the cost approach is mainly applied for the appraisal.

The calculation formula is: appraisal value = replacement cost × newness rate

① Determination of replacement cost

According to the vehicle market information and other recent vehicle market price data, the current purchase price before tax of transportation vehicles on the valuation benchmark date of the appraisal is determined, on basis of which the replacement cost is determined by taking into account the vehicle purchase tax, new vehicle license fees and other service charges according to the Vehicle Acquisition Tax Law of the People's Republic of China and relevant documents. The purchase price (exclusive of VAT) is applied for the asset appraisal.

The calculation formula is as follows:

Replacement cost = purchase price after tax + vehicle purchase tax + new vehicle license fees

- A. Purchase price: it is determined with reference to the latest market price (exclusive of VAT) of similar models of the place where the vehicles are located. For certain vehicles that have been discontinued, the purchase price is determined by the market price of alternative models with similar brand performance, and other expenses are determined according to the contract charging standard level of the local vehicle administrative authorities. According to the Cai Shui [2016] No. 36, the input tax of VAT special invoices obtained by ordinary VAT taxpayers who purchase motorcycles, automobiles and yachts can be deducted without distinguishing whether they are used for their own use.
- B. Vehicle Purchase Tax: According to relevant provisions of the Vehicle Acquisition Tax Law of the People's Republic of China (Presidential Decree No. 19 of the People's Republic of China) and the Announcement on Deepening the VAT-reform-related Policies (Announcement of the Ministry of Finance, State Administration of Taxation and General Administration of Customs [2019] No. 39), the taxable amount of vehicle purchase tax = taxable value × 10%, and the taxable value where taxpayers purchase their own vehicles should not include the VAT tax. Therefore: vehicle purchase tax = purchase price/(1 + VAT rate) × 10%

② Determination of newness rate

In combination with the provisions of the Regulations on Compulsory Scrapping Standards of Motor Vehicles (Order No. 12 of 2012 of the Ministry of Commerce, Development and Reform Commission, Ministry of Public Security and Ministry of Environmental Protection), the newness rate under the service life approach and the newness rate of the mileage shall be determined respectively according to the following methods. The theoretical newness rate of the vehicle shall be the lower, and the comprehensive depreciation rate shall be determined in combination with the on-site inspection newness rate.

The calculation method of the newness rate under the service life approach is as follows:

The newness rate under the service life approach = remaining useful life / (serviced life + remaining useful life) × 100%

The calculation method of the mileage newness rate is as follows:

Mileage newness rate = (travelable mileages – travelled miles)/travelable mileage × 100%

The theoretical newness rate shall be the lower.

Necessary survey and inspection shall also be carried out for each component of the appraised vehicle. If there is a relatively substantial difference between the survey and inspection results and the newness rate determined by the above methods, appropriate adjustment shall be made to determine the final newness rate. If the results are equivalent, no adjustment will be made.

(3) *Valuation of electronic equipment*

The replacement cost of electronic equipment is determined on basis of the prevailing market price (exclusive of VAT), and also includes other reasonable auxiliary expenses (installation fees, freight and miscellaneous expenses, etc.) that should be considered when purchasing the equipment. For some obsolete electronic equipment (such as computers), due to the existence of an active second-hand market, the second-hand market price of similar equipment is directly taken as the appraisal value.

Determination of newness rate: it is determined based on the newness rate under the service life approach, and the calculation formula is as follows:

The newness rate under the service life approach = economic useful life - serviced life)/economic useful life × 100%

4. *Valuation of construction in progress*

The construction in progress includes the interior decoration project and PLM projects of the plant at the Suzhou Industrial Park. The appraisal is presented at the book value after audit.

5. *Valuation of intangible assets - other intangible assets*

Other intangible assets include the Morewis Cloud intelligent manufacturing system, human resource management software, lithium ion battery pack automation production complete equipment, electric moped battery pack and display system R&D projects, etc. The asset appraisal professionals have reviewed the purchase contract of outsourcing software and the R&D project case report, and determined the appraisal value according to the purchase value, book value and reasonable benefit period.

**6. *Valuation of development expenditure***

The development expenditure includes RD05 intelligent hardware lithium ion battery pack expansion project, and the research and development of lithium ion battery system for RD09 vacuum cleaner, so as to determine the appraisal value based on the book value confirmed in the audit report after verification.

**7. *Valuation of long-term deferred assets***

The long-term deferred assets include the workshop decoration expenses. The asset appraisal professionals will check the relevant account books and vouchers to confirm whether there are corresponding assets or rights after the valuation benchmark date, and determine the appraisal value on basis of verifying the benefit period and amount.

**8. *Liabilities***

For the valuation of liabilities, the asset appraisal professionals shall verify the book value according to the breakdown of each item and relevant financial information provided by the enterprise, so as to determine the appraisal value based on the book value confirmed in the audit report or the liabilities actually assumed by the enterprise.

**(III) Income approach**

**1. *Overview***

According to the Asset Valuation Standards - Enterprise Value, the cash flow discount method is a method to evaluate the asset value by discounting the expected future net cash flow of the appraised entity into the present value. Generally, the enterprise value is arrived by estimating the expected future net cash flow of the asset and discounting it into the current value with an appropriate discount rate. The general conditions applicable are that the appraised entity has the basis and conditions for operating as a going concern, there is a relatively stable correspondence between operation and income, and future income and risks can be predicted and quantified. The greatest difficulty in applying the discounted cash flow method is the prediction of expected future cash flows, and the objectivity and reliability of data collection and processing. When the forecast of expected future cash flows is relatively objective and fair, and the discount rate selected is more reasonable, the appraisal result shall be more objective.

**2. *Appraisal idea***

The income approach is to appraise the operating assets of an enterprise based on the idea of income restoration, which is, to restore the expected net income from the enterprise's future operations to the amount of capital or investment on the benchmark date. The specific appraisal method is to estimate the expected future earnings of the appraised assets and discount them to the present value on the benchmark date using an appropriate discount rate or

capitalization rate, and then sum up to arrive at the appraised value of the appraised assets. In the income approach appraisal, the value of the income and capitalization rate of the appraised assets must be consistent.

Free cash flow of the enterprise was selected for the income approach appraisal model.

Overall value of the enterprise = discounted value of free cash flow of the enterprise + surplus value of assets + value of non-operating assets - value of non-operating liabilities

Value of the total shareholders' equity = overall value of the enterprise - interest-bearing debts

Interest-bearing debts: the debts that need to pay interest in the accounts on the benchmark date, including short-term loans, long-term loans due within one year, long-term loans, and bond payables.

1) *Determination of forecast period and benefit period*

Indefinite duration was used for the appraisal.

2) *Determination of free cash flow*

The net cash flow of the enterprise was used in the appraisal, and the cash flow was calculated by the following formula:

(For each year in the forecast period) corporate net cash flow = cash inflow - cash outflow

(For each year in the forecast period) free cash flow = operating income - operating costs - operating taxes and surcharges - expenses for the period (administrative expenses, operating expenses, finance costs) + interest after tax + net non-operating income and expenses - income taxes + depreciation and amortization - capital expenditures - additional working capital

3) *Determination of discount rate*

In accordance with the principle that the caliber of amount of earnings is line with that of the discount rate, the discount rate used in the appraisal is the weighted average cost of capital (WACC), the calculation formula is as follows:

$$\text{WACC} = K_e \times \frac{E}{E+D} + K_d \times (1-t) \times \frac{D}{E+D}$$

where:

$k_e$ : cost of equity capital;

$k_d$ : cost of interest-paying debt capital;

E: equity;

D: interest-bearing debts;

t: income tax rate.

In particular, the cost of equity capital is calculated using the capital asset pricing model (CAPM). The calculation formula is as follows:

$$K_e = r_f + \text{MRP} \times \beta_L + r_c$$

where:

$r_f$ : rate of risk-free return;

MRP: market risk premium;

$\beta_L$ : systematic risk factor of equity;

$r_c$ : specific risk adjustment factor of an enterprise.

4) *Determination of the value of excess assets*

Excess assets are redundant assets not directly related to the enterprise's income and in excess of those required for the enterprise's operations.

5) *Determination of the value of non-operating assets*

Non-operating assets are assets not directly related to the enterprise's income and do not generate benefits, or assets and liabilities that do not participate in revenue forecasting.

## VII. VALUATION CALCULATION AND ANALYSIS PROCESS

### (I) Forecast of free cash flows

#### 1. *Determination of discount period:*

The discount period of future income is indefinite.

## 2. Forecast of main business income:

In 2018, 2019, 2020 and 2021, the sales revenue from main business of the company is RMB606,613,600, RMB796,706,800, RMB1,250,578,600 and RMB1,338,644,300, respectively. In 2019, 2020 and 2021, the main business income increased by 31.34%, 56.97% and 7.04%, respectively. The following table sets out the income from 2018 to 2021:

Category	Item	Unit	2018	2019	2020	2021
1. Moped battery and lock battery	Sales	0,000 pcs	119.89	133.90	162.40	152.14
	Unit price	RMB/pc	296.18	362.45	508.42	215.97
	Amount	RMB'0,000	35,510.13	48,532.63	82,569.36	32,858.11
2. Lithium battery for body-sensing vehicle	Sales	0,000 pcs	187.48	123.19	126.90	122.47
	Unit price	RMB/pc	114.78	127.14	162.95	281.96
	Amount	RMB'0,000	21,518.15	15,662.62	20,678.28	34,531.05
3. Vacuum cleaner battery	Sales	0,000 pcs	2.77	22.17	158.74	365.16
	Unit price	RMB/pc	80.53	123.37	78.28	106.97
	Amount	RMB'0,000	222.90	2,734.85	12,426.24	39,061.94
4. VR glasses battery	Sales	0,000 pcs	1.11	134.62	57.80	324.40
	Unit price	RMB/pc	113.73	67.94	85.87	48.07
	Amount	RMB'0,000	125.81	9,146.31	4,963.26	15,593.59
5. Electric motorcycle battery	Sales	0,000 pcs			0.0014	0.20
	Unit price	RMB/pc			3,700.79	4,414.93
	Amount	RMB'0,000			5.18	899.32
6. Replacement battery	Sales	0,000 pcs		0.01	0.40	1.58
	Unit price	RMB/pc		3,138.25	434.97	1,025.14
	Amount	RMB'0,000		17.57	174.16	1,618.49
7. Robot battery	Sales	0,000 pcs	0.25	1.23	0.77	1.37
	Unit price	RMB/pc	3,782.30	2,593.17	3,018.22	3,106.32
	Amount	RMB'0,000	936.87	3,200.75	2,325.54	4,252.86
8. Electric tools battery	Sales	0,000 pcs	6.46	0.26	13.58	26.74
	Unit price	RMB/pc	104.44	437.07	96.99	90.68
	Amount	RMB'0,000	674.42	114.12	1,317.17	2,425.01
9. Energy storage battery	Sales	0,000 pcs	0.69		0.23	2.17
	Unit price	RMB/pc	1,483.22		2,508.42	1,086.51
	Amount	RMB'0,000	1,021.05		575.18	2,361.21
10. Home security battery	Sales	0,000 pcs			0.08	8.22
	Unit price	RMB/pc			29.36	29.29
	Amount	RMB'0,000			2.41	240.82
11. Other motive battery	Sales	0,000 pcs	2.94	4.38	0.41	0.32
	Unit price	RMB/pc	221.59	59.74	50.83	69.00
	Amount	RMB'0,000	652.03	261.83	21.08	22.03
Total		RMB'0,000	60,661.36	79,670.68	125,057.86	133,864.43

From the above table, the unit prices of various types of products fluctuate greatly, mainly due to the various forms of small and medium-sized power batteries. There are many different subcategories in each category of products in the table. The capacity of each subcategory of battery is different, and the number of “cells” used is different. Therefore, the unit price varies greatly, and the unit price fluctuates significantly after being imported into various types of products for statistics.

- (1) Two-wheeler battery (including moped battery and lock battery, electric motorcycle battery, replacement battery): At present, the development of the two-wheeler electric vehicle industry is relatively mature. With the development trend of lithium electrification, quality, performance and lightweight of electric vehicles, it is expected that the market share of lithium batteries in the field of electric bicycles will gradually increase in the coming years with the continuous development of lithium battery electric bicycles. Scud Battery began to develop lithium-ion battery packaging for electric two-wheelers as early as 2009. After over ten years of development, Scud Battery has developed more than 30 kinds of lithium-ion battery packaging products for electric two-wheelers, and has become the battery supplier of many leading enterprises in the industry, including Meituan, Didi, Hellobike, Surron, etc. The income of moped battery and lock battery increased by 36.67% in 2019 and 1.7 times in 2020. In 2021, as Meituan and Didi slowed down their deployment of shared mopeds to the market due to the influence of government policies, the income decreased by 60.2% in 2021. It is expected that this kind of products will still have some room for growth in the future. In the appraisal, it is expected that the income will increase by 5% annually from 2022 to 2023, and by 10% annually from 2024 to 2025, and will remain unchanged in 2026 and afterwards.
- (2) Lithium battery for body-sensing vehicle: The balance vehicles and scooters replace bicycles and electric vehicles as means of transportation, which is the development of fashion trend. According to the Market Competitiveness and Development Strategy Analysis Report of Electric Balance Vehicle Industry in China from 2021-2027: the electric balance vehicles have been more and more popular in people’s lives due to the characteristics of environmental protection, flexibility and simple control, etc. In 2021, the global shipment of electric balance vehicles reached 10.32 million units, representing a year-on-year increase of 23.7%, including 9.32 million units of electric balance vehicles in China, accounting for 90%. With the increase of urban car ownership, the environmental pollution problem caused by vehicles has become increasingly prominent. The electric balance vehicle uses lithium battery as its power, which is consistent with the green and low-carbon policy. The battery of balance vehicle and scooter is a very promising product. From the current situation, the entire battery market of balance vehicle and scooter has not been fully developed, and the battery of balance vehicle and scooter has huge growth potential. Scud Battery began to develop lithium-ion battery packaging for electric scooter and electric balance vehicle as early as 2015. After 7 years of development, Scud Battery has developed more than 20 kinds of lithium-ion battery packaging products for

various electric scooters and electric balance vehicles, and has become the battery supplier of many leading enterprises in the industry, including LIME (the world's first), UBER, Ninebot under Xiaomi, Leshang, etc. In recent years, this business of the company has grown rapidly. Due to the rapid growth of the entire industry, this kind of product has significant room for market growth. In the appraisal, it is expected that the income will increase by 5% annually from 2022 to 2023, and by 10% annually from 2024 to 2025, and will remain unchanged in 2026 and afterwards.

- (3) Vacuum cleaner battery: In recent years, due to the pandemic, cleaning appliances have been widely concerned and the industry has grown rapidly. From 2016 to 2021, the CAGR of market size of cleaning appliances in China was 25.06%. The market size expanded rapidly from RMB10.1 billion in 2016 to RMB30.9 billion in 2021, and is expected to continue to grow in the future. In the future, the development of cleaning home appliances is bound to be towards more intelligent, more convenient and more comprehensive cleaning capacities. The emergence of new intelligent cleaning home appliances makes cleaning simple and economic, and brings a major upgrade to the entire cleaning industry, which causes rapid development. Based on the rapid development of cleaning home appliances, the growth rate of cordless vacuum cleaners, sweeping robots and other battery markets will increase significantly in the short term, and the market is relatively broad. In recent years, this business of the appraised entity has grown rapidly, especially from 2020 to 2021. In the appraisal, it is expected that the income will increase by 3% and 5% in 2022 and 2023, respectively, and by 10% annually from 2024 to 2025, and will remain unchanged in 2026 and afterwards.
- (4) VR glasses battery: Since 2021, the VR industry has been recovered, and the iteration speed of VR products of leading manufacturers has accelerated. Driven by the core technology innovation of hardware equipment, the mainstream products in the market turned to high-end all-in-one machines and tethered head mounted device. Moreover, with the market clearing and content accumulation, the development of VR industry gradually recovered. The industry ecology has been effectively improved, and the overall industry has entered a virtuous circle of "improved hardware performance, expanded user groups and increased content supply". The demand for VR glasses batteries is closely related to the output of VR glasses, and the output of VR glasses directly reflects the market demand for VR glasses batteries. It is expected that the VR glasses battery market will experience steady growth in the short term. This business of the appraised entity has grown rapidly in 2021. In the appraisal, it is expected that the income will increase by 5% and 10% annually from 2022 to 2023 and from 2024 to 2025, respectively, and will remain unchanged in 2026 and afterwards.
- (5) Robot battery: In recent years, intelligent manufacturing has been vigorously developed in China, and the development of industrial robot industry has gained strategic attention at the national level. According to the data from the Mobile

Robot And AGV Industry Alliance of China, the report believes that 41,000 new mobile robots for industrial application (AGV/AMR) have been added to the Chinese market in 2021, representing an increase of 22.75% over the previous year, and the market sales reached RMB7.68 billion, representing a year-on-year increase of 24.4%. According to the data from the Mobile Robot And/AMR AGV Industry Alliance of China and the statistics of the New Strategic Mobile Robot Industry Research Institute, in 2021, the new energy battery market accounted for 8.4% of the overall sales market of industrial mobile robots, with a significant growth rate, which was the most eye-catching industry segment in 2021. The steady growth of the AGV market will lead to a steady increase in the demand for AGV batteries, and the AGV battery market will usher in a steady development stage with great development potential. This business of the appraised entity has developed steadily in recent years. In the appraisal, it is expected that the income will increase by 5% and 10% annually from 2022 to 2023 and from 2024 to 2025, respectively, and will remain unchanged in 2026 and afterwards.

- (6) Electric tools battery: Electric tools are now developing towards cordlessness, miniaturisation and lightweight. At present, the traditional corded electric tools occupy the mainstream, but the market demand for product convenience continues to increase, and cordless electric tools are expanding market share. The global electric tools show the trend of cordless, and the cordless development of electric tools in China is also accelerating. With the support by the improvement of domestic lithium battery technology and cost reduction, lithium electrochemistry will be the result of the cordlessness, miniaturisation and lightweight trend of electric tools. According to the GGII data, in 2021, the shipment of lithium batteries for electric tools in China reached 8GWh, and it is expected that the market of lithium batteries for electric tools in China will continue to develop at a high rate in the next five years, and the shipment will reach 10GWh in 2022. This business of the appraised entity has grown rapidly in recent years. In the appraisal, it is expected that the income will increase by 5% and 10% annually from 2022 to 2023 and from 2024 to 2025, respectively, and will remain unchanged in 2026 and afterwards.
- (7) Energy storage battery: Under the background of national energy transition and carbon neutral strategy, benefiting from the continuous decline of battery costs and the stimulation of government policies, energy storage batteries are an important part of power system reform and new energy power construction. Driven by the rapid growth of the output of electric vehicles, the energy storage lithium battery industry of China continues to maintain rapid growth, industry innovation is accelerating, and new technologies are emerging. In addition, with the rapid development of global new energy industry, lithium battery is the most widely used chemical secondary battery. In recent years, with continuous technological progress and continuous improvement of the cost performance of lithium batteries, the lithium batteries have gradually replaced other secondary batteries such as plumbic acid, and become the first choice for power,

consumption and energy storage batteries. Driven by new energy vehicles and energy storage industry, domestic power and energy storage battery enterprises have accelerated production capacity, and the expansion of scale advantages has further reduced the price of lithium-ion batteries. In addition, the technologies of lithium iron phosphate and sodium-ion batteries have matured to further control battery costs. Therefore, the price of portable energy storage products with lithium battery as the main component is expected to be further reduced, their alternative advantages to traditional small fuel generators will be more obvious, and their penetration rate in the overall market will also increase rapidly. This business of the appraised entity has grown rapidly in recent years. In the appraisal, it is expected that the income will increase by 5% and 10% annually from 2022 to 2023 and from 2024 to 2025, respectively, and will remain unchanged in 2026 and afterwards.

- (8) Home security battery: The home security devices, such as smart locks and cameras, can be connected with Internet Big Data and cloud services to upgrade functional products to smart products. In recent years, the home security has become more and more important in smart home. Benefiting from the growth of the shipment of home security equipment, the demand for home security batteries will increase steadily, and the market prospect of home security batteries is very broad. This business of the appraised entity has grown rapidly in recent years. In the appraisal, it is expected that the income will increase by 5% and 10% annually from 2022 to 2023 and from 2024 to 2025, respectively, and will remain unchanged in 2026 and afterwards.

To sum up, the forecast of future main business income is as follows:

*Unit: RMB'0,000*

Product category	2022	2023	2024	2025	2026 and afterwards
1. Moped battery and lock battery	34,501.03	36,226.08	39,848.69	43,833.56	43,833.56
2. Lithium battery for body-sensing vehicle	36,257.60	38,070.48	41,877.53	46,065.28	46,065.28
3. Vacuum cleaner battery	41,015.04	43,065.79	47,372.37	52,109.60	52,109.60
4. VR glasses battery	16,373.27	17,191.93	18,911.13	20,802.24	20,802.24
5. Electric motorcycle battery	944.29	991.50	1,090.65	1,199.72	1,199.72
6. Replacement battery	1,699.41	1,784.38	1,962.82	2,159.10	2,159.10
7. Robot battery	4,465.51	4,688.78	5,157.66	5,673.43	5,673.43
8. Electric tools battery	2,546.26	2,673.57	2,940.93	3,235.02	3,235.02

Product category	2022	2023	2024	2025	2026 and afterwards
9. Energy storage battery	2,479.27	2,603.23	2,863.56	3,149.91	3,149.91
10. Home security battery	252.86	265.50	292.05	321.25	321.25
11. Other motive battery	23.13	24.29	26.72	29.39	29.39
Total	140,557.65	147,585.54	162,344.09	178,578.50	178,578.50

### 3. Forecast of main business cost:

In 2018, 2019, 2020 and 2021, the main business cost of the company is RMB539,536,600, RMB709,866,000, RMB1,072,548,000 and RMB1,163,647,700, respectively. The main business costs mainly include material costs, labor costs, outsourcing processing costs, etc. The following table sets out the main business cost and income cost ratio from 2018 to 2021:

Category	Unit	2018		2019		2020		2021	
		Cost	Income cost ratio	Cost	Income cost ratio	Cost	Income cost ratio	Cost	Income cost ratio
1. Moped battery and lock battery	Sales	0,000 pcs	119.89	133.90	162.40	152.14			
	Unit cost	RMB/pc	254.03	320.32	429.23	183.13			
	Amount	RMB'0,000	30,456.52	0.86	42,891.53	0.88	69,709.31	0.84	27,862.53
2. Lithium battery for body-sensing vehicle	Sales	0,000 pcs	187.48	123.19	126.90	122.47			
	Unit cost	RMB/pc	110.13	115.19	145.02	245.66			
	Amount	RMB'0,000	20,647.38	0.96	14,190.29	0.91	18,403.84	0.89	30,085.35
3. Vacuum cleaner battery	Sales	0,000 pcs	2.77	22.17	158.74	365.16			
	Unit cost	RMB/pc	75.53	118.11	71.16	96.65			
	Amount	RMB'0,000	209.06	0.94	2,618.31	0.96	11,296.44	0.91	35,294.33
4. VR glasses battery	Sales	0,000 pcs	1.11	134.62	57.80	324.40			
	Unit cost	RMB/pc	106.42	64.27	80.38	45.09			
	Amount	RMB'0,000	117.72	0.94	8,651.98	0.95	4,646.04	0.94	14,627.84
5. Electric motorcycle battery	Sales	0,000 pcs			0.0014	0.20			
	Unit cost	RMB/pc			2,104.29	2,382.59			
	Amount	RMB'0,000			2.95	0.57	485.33	0.54	
6. Replacement battery	Sales	0,000 pcs		0.01	0.40	1.58			
	Unit cost	RMB/pc		2,184.55	302.68	714.66			
	Amount	RMB'0,000		12.23	0.70	121.19	0.70	1,128.30	0.70
7. Robot battery	Sales	0,000 pcs	0.25	1.23	0.77	1.37			
	Unit cost	RMB/pc	2,553.45	1,856.05	2,061.11	2,184.48			
	Amount	RMB'0,000	632.49	0.68	2,290.92	0.72	1,588.09	0.68	2,990.77

Category	Unit	2018		2019		2020		2021	
		Income cost		Income cost		Income cost		Income cost	
		Cost	ratio	Cost	ratio	Cost	ratio	Cost	ratio
8. Electric tools battery	Sales	0,000 pcs	6.46		0.26		13.58		26.74
	Unit cost	RMB/pc	101.05		406.12		77.47		71.63
	Amount	RMB'0,000	652.51	0.97	106.04	0.93	1,052.09	0.80	1,915.56
9. Energy storage battery	Sales	0,000 pcs	0.69				0.23		2.17
	Unit cost	RMB/pc	1,333.27				1,810.23		797.73
	Amount	RMB'0,000	917.82	0.90			415.09	0.72	1,733.62
10. Home security battery	Sales	0,000 pcs					0.08		8.22
	Unit cost	RMB/pc					27.27		27.02
	Amount	RMB'0,000					2.24	0.93	222.11
11. Other motive battery	Sales	0,000 pcs	2.94		4.38		0.41		0.32
	Unit cost	RMB/pc	108.81		51.41		42.24		59.61
	Amount	RMB'0,000	320.16	0.49	225.30	0.86	17.52	0.83	19.03
Total		53,953.66		70,986.60		107,254.80		116,364.77	

- (1) Moped battery and lock battery, VR glasses battery, electric motorcycle battery, replacement battery, robot battery, home security battery: From the above table, the income cost rate was relatively stable in recent years. In the appraisal, the future income cost rate of these six types of products is the average value from 2018 to 2021. (2) Lithium battery for body-sensing vehicle, vacuum cleaner battery, electric tools battery, energy storage battery: From the above table, the income cost rate tended to decline in recent years, and the income cost rate tended to be stable from 2020 to 2021, mainly due to the increase in output and the improvement in production process and production efficiency. In the appraisal, the future income cost rate of these four types of products is the average value from 2020 to 2021. (3) Other motive battery: From the above table, the income cost rate was low in 2018, and tends to be stable after 2019. The reason for the low income cost rate in 2018 is that the products were mostly produced in small batches. In the appraisal, its future income cost rate is the average value from 2019 to 2021. The forecast is shown in the following table:

Unit: RMB'0,000

Product category	Income cost rate	2026 and afterwards				
		2022	2023	2024	2025	2026 and afterwards
1. Moped battery and lock battery	0.86	28,258	29,106	30,561	32,089	32,089
2. Lithium battery for body-sensing vehicle	0.88	31,299	32,864	36,150	39,765	39,765
3. Vacuum cleaner battery	0.91	36,613	38,443	42,288	46,517	46,517
4. VR glasses battery	0.94	15,098	15,551	16,328	17,145	17,145
5. Electric motorcycle battery	0.55	509	525	551	579	579

Product category	Income cost rate					2026 and
		2022	2023	2024	2025	afterwards
6. Replacement battery	0.70	1,167	1,225	1,348	1,483	1,483
7. Robot battery	0.69	3,023	3,174	3,491	3,840	3,840
8. Electric tools battery	0.79	1,973	2,072	2,279	2,507	2,507
9. Energy storage battery	0.73	1,775	1,864	2,051	2,256	2,256
10. Home security battery	0.93	231	242	266	293	293
11. Other motive battery	0.85	20	21	22	23	23
Total		119,965	125,086	135,335	146,495	146,495

#### 4. Forecast of income and expenditure of other businesses

Other businesses of the company mainly include sales of materials and technical service fees charged to customers, etc. Details of each year are shown in the following table:

*Unit: RMB'0,000*

Item	2018	2019	2020	2021
Income from other businesses	4,096.75	4,647.77	8,802.67	20,068.94
Cost of other businesses	3,551.52	3,911.82	7,279.79	16,052.71
Profits from other businesses	545.23	735.95	1,522.88	4,016.24

The expected profit from other businesses in 2022 is the average value from 2019 to 2021, and will increase by 3% annually thereafter.

#### 5. Forecast of administrative expenses

According to the financial information analysis, the administrative expenses of the company mainly comprise of salaries, entertainment expenses. In 2018, the administrative expenses were RMB15,593,500, accounting for 2.41% of the total revenue; in 2019, the administrative expenses were RMB33,232,600, accounting for 3.94% of the total revenue; in 2020, the administrative expenses were RMB54,711,300, accounting for 4.09% of the total revenue; and in 2021, the administrative expenses were RMB70,949,800, accounting for 4.61% of the total revenue. Please refer to the table below for details:

*Unit: RMB0'000*

Item	2018	2019	2020	2021
Depreciation	5.87	46.93	109.51	158.95
Amortization of intangible assets	-	-	22.68	63.46
Employee compensation	442.46	2,346.97	4,107.83	5,131.90
Rentals	127.47	81.20	53.36	453.18

Item	2018	2019	2020	2021
Customs clearance fee	48.88	-	-	-
Human resources, education and training expenses	182.91	122.71	55.21	263.36
Entertainment expenses	414.04	105.45	161.03	57.93
Travel expenses	41.36	69.74	86.74	59.67
Insurance premium	43.35	87.86	101.14	134.11
Long term deferred amortization and repair expenses	56.10	75.76	125.72	209.68
Intermediary agency fees	7.90	17.24	7.17	110.50
Administrative taxes	25.63	40.38	88.89	139.34
Office expenses and others	163.38	329.02	551.85	312.9
Total	1,559.35	3,323.26	5,471.13	7,094.98

- ① Forecast of employee compensation: It is presented in the above table that the employee compensation has increased rapidly in recent years. In 2019, the appraised entity was completely spin-off and independently operated from Scud Group, and a large number of management member were transferred from Scud Group to the appraised entity, which resulted in the significant increase in the employee compensation in 2019, and then the year-on-year increase in management personnel due to the needs of the company's operation, the employee compensation has been rising year-on-year. As the numbers of employees and compensation structure have been adjusted in the past two years, it is expected that the employee compensation will be stable after 2022. Therefore, the estimated value of the employee compensation in 2022 refers to the amount in 2021, which will increase by 1% annually from 2023 to 2025, and will remain unchanged afterwards.
- ② Forecast of depreciation and amortization: it mainly comprises of equipment depreciation, intangible assets and long-term deferred amortization expenses to be amortized. Since the company's existing assets are relatively stable, the estimated value of depreciation and amortization in the coming years is based on the amount incurred in recent years.
- ③ Forecast of rentals: it represents the office leasing expenses. It is presented in the above table that the amount in 2021 is relatively high, mainly due to the inclusion of factory rentals into the administrative expenses. It is expected that the office rentals in 2022 will be the rentals of Jiangsu and Shenzhen branches. Since the office premises of the company is relatively stable, it is expected that it can be normally renewed in the future, the estimated value is determined with reference to the Property Lease Contract.
- ④ Forecast of intermediary agency fees: It is presented in the above table that the amount in 2021 is relatively high, mainly due to the inclusion of the consulting fees for engagement of intermediaries for senior management training. The estimated value is based on the average value of 2018 to 2020.

- ⑤ Forecast of entertainment expenses: Since the entertainment expenses included in the operating expenses in 2018 were included in the administrative expenses, the amount of entertainment expenses in 2018 was high. The estimated value is based on the average proportion of entertainment expenses to the revenue in 2019 to 2021.
- ⑥ Forecast of human resources, education and training expenses, travel expenses, administrative taxes, office expenses and others: the estimated value is based on the average proportion of expenses to the revenue in 2018 to 2021.

The administrative expenses are estimated as follows:

*Unit: RMB0'000*

Item	2022	2023	2024	2025	2026 and afterwards
Depreciation	158.95	158.95	158.95	158.95	158.95
Amortization of intangible assets	63.46	63.46	63.46	63.46	63.46
Employee compensation	5,131.90	5,183.22	5,235.05	5,287.40	5,287.40
Rentals	154.48	154.48	154.48	154.48	154.48
Human resources, education and training expenses	236.91	246.80	266.08	287.05	287.05
Entertainment expenses	133.26	138.83	149.67	161.47	161.47
Travel expenses	88.84	92.55	99.78	107.64	107.64
Insurance premium	107.71	107.71	107.71	107.71	107.71
Long term deferred amortization and repair expenses	85.86	85.86	85.86	85.86	85.86
Intermediary agency fees	10.77	10.77	10.77	10.77	10.77
Administrative taxes	88.84	92.55	99.78	107.64	107.64
Office expenses and others	459.01	478.18	515.54	556.16	556.16
Total	6,719.99	6,813.36	6,947.14	7,088.59	7,088.59

#### 6. Forecast of selling expenses

According to the financial information analysis, the selling expenses of the company mainly comprise of wages and salaries, freight and miscellaneous expenses. In 2018, the selling expenses were RMB10,140,200, accounting for 1.57% of the total revenue; in 2019, the selling expenses were RMB15,843,200, accounting for 1.88% of the total revenue; in 2020, the selling expenses were RMB27,850,200, accounting for 2.08% of the total revenue; and in 2021, the selling expenses were RMB23,100,400, accounting for 1.5% of the total revenue. Please refer to the table below for details:

Unit: RMB0'000

Item	2018	2019	2020	2021
Depreciation	1.49	15.75	1.56	1.59
Employee compensation	528.63	470.81	550.87	870.77
Rentals	-	6.77	7.72	3.56
Travel expenses	60.54	144.26	98.54	194.51
Entertainment expenses	-	370.76	1,128.37	451.84
Freight and miscellaneous expenses	414.49	479.82	789.52	480.93
Customs clearance fee	-	50.83	155.34	143.60
Office expenses and others	8.87	45.32	53.1	163.24
Total	1,014.02	1,584.32	2,785.02	2,310.04

- ① Forecast of employee compensation: The employee compensation increased in a rapidly manner in 2021, mainly due to the increase in employees and the adjustment of salary structure. The forecast of employee compensation in the coming years is based on the average proportion of employee compensation to the revenue in 2019 to 2021.
- ② Depreciation: the estimated value of depreciation in the coming years is based on the amount incurred in recent years.
- ③ Freight and miscellaneous expenses: the amount was relatively high in 2020, mainly due to the high proportion of shared moped batteries sold in 2020, and the shared moped batteries are distributed nationwide, the freight and miscellaneous expenses are high. The shared moped batteries are generally picked up customers themselves after 2020. The estimated value of freight and miscellaneous expenses in the coming years is based on the average proportion of freight and miscellaneous expenses to the revenue in 2018 to 2019 and 2021.
- ④ Entertainment expenses: The entertainment expenses in 2018 were included in the administrative expenses, while the entertainment expenses in 2020 was relatively high mainly due to the expansion of new customers. The estimated value of entertainment expenses in the coming years is based on the average proportion of entertainment expenses to the revenue in 2019 to 2021.
- ⑤ Customs clearance fee: the customs clearance fee in 2018 was included in the administrative expenses, and the estimated value of customs clearance fee in the coming years is based on the average proportion of customs clearance fee to the revenue in 2019 to 2021.
- ⑥ Rentals: it refers to the office rentals of the sales personnel elsewhere, and the estimated value in the coming years is based on the average amount in 2019 to 2021.

- ⑦ Travel expenses and others: the estimated value in the coming years is based on the average proportion of travel expenses and others to the revenue in 2018 to 2021.

The selling expenses are estimated as follows:

*Unit: RMB0'000*

Item	2022	2023	2024	2025	2026 and afterwards
Depreciation	1.59	1.59	1.59	1.59	1.59
Employee compensation	755.15	786.68	848.14	914.97	914.97
Rentals	6.02	6.02	6.02	6.02	6.02
Travel expenses	177.68	185.10	199.56	215.29	215.29
Entertainment expenses	784.76	817.53	881.40	950.85	950.85
Freight and miscellaneous expenses	755.15	786.68	848.14	914.97	914.97
Customs clearance fee	133.26	138.83	149.67	161.47	161.47
Office expenses and others	74.03	77.13	83.15	89.70	89.70
Total	2,687.64	2799.55	3,017.68	3,254.86	3,254.86

#### 7. Forecast of taxes and surcharges:

Taxes and surcharges mainly include urban construction tax and education surcharges. Please refer to the table below for the amount incurred in 2018 to 2021:

*Unit: RMB0'000*

Item	2018	2019	2020	2021
Taxes and surcharges	35.94	23.10	249.30	89.36
Percentage of operating revenue	0.06%	0.03%	0.19%	0.06%

The VAT rates are 13% and 6%, and the export tax rate is zero; The urban construction tax rate is 7%, and the education surcharge rate is 5%. The estimated value of taxes and surcharges in the coming years is based on the proportion of taxes and surcharges to total operating revenue in 2018 to 2021.

#### 8. Forecast of finance costs:

The finance costs mainly include interest expenses of borrowings and exchange gains and losses. no estimation is made for exchange gains and losses because the trend and range of currencies are difficult to be estimated in the future. The interest-bearing liabilities of the appraised entity on the valuation benchmark date include short-term borrowings of RMB30 million and loans from Fuzhou Economic and Technological Development Zone Mincheng

Equity Investment Partnership (Limited Partnership) (福州經濟技術開發區閩誠股權投資合夥企業(有限合夥)) of RMB60 million. According to the expected future sales scale and production of the company, it is expected that the company will maintain the current borrowing scale in the coming years, and the loans repaid to Fuzhou Economic and Technological Development Zone Mincheng Equity Investment Partnership (Limited Partnership) (福州經濟技術開發區閩誠股權投資合夥企業(有限合夥)) in 2022 were converted into bank loans at the agreed interest rate under the existing bank loan contract, the forecast of finance costs in the coming years is as follows:

*Unit: RMB0'000*

Item	2022	2023	2024	2025	2026 and afterwards
Interest expenses	495.00	450.00	450.00	450.00	450.00
Total	495.00	450.00	450.00	450.00	450.00

#### 9. Forecast of R&D expenses:

The R&D expenses mainly include labour costs and material costs. The R&D expenses incurred in 2018 to 2021 are as follows:

*Unit: RMB0'000*

Item	2018	2019	2020	2021
Depreciation	95.52	94.87	68.80	161.45
Amortization of intangible assets	0.41	4.30	1.11	606.56
Labour costs	1,458.50	1,637.06	1,181.86	3,376.66
Direct costs	1,095.09	1,287.69	3,433.68	2,962.02
Other expenses	118.37	417.55	243.68	344.34
Entrusted R&D expenses	-	63.00	1,050.49	-
Total	2,767.89	3,504.47	5,979.62	7,451.03
Percentage of revenue	4.27%	4.16%	4.47%	4.84%

As a high-tech enterprise, the company will maintain its existing R&D investment, and the estimated value of investment in R&D in the coming years is based on the average proportion of 4.43% of R&D expenses to the operating income for each period from 2018 to 2021. The forecast of R&D expenses in the coming years is as follows:

*Unit: RMB0'000*

Item	2022	2023	2024	2025	2026 and afterwards
R&D expenses	6,721.67	7,047.85	7,716.95	8,451.89	8,451.89

**10. Forecast of income tax:**

According to the Enterprise Income Tax Law considered and approved at the 10th meeting of the National People's Congress on 16 March 2007 and its subsequent implementation regulations, the enterprises are subject to the enterprise income tax rate of 25% from 1 January 2008. The enterprise income tax preferences enjoyed by the company are as follows:

- ① According to the Enterprise Income Tax Law of the People's Republic of China and its implementation regulations, and the Notice of the State Administration of Taxation on Issuing the Administrative Measures for the Pre-tax Deduction of Enterprise Research and Development Expenses (Trial) (Guo Shui Fa [2008] No.116), from 1 January 2008, if the R&D expenses are charged to profit or loss but not accounted as intangible assets, such expenses shall be deducted from the R&D expenses at 50% of the actual amount incurred and on an actual basis as required; or such expenses shall be amortized at 150% of the cost of intangible assets if they are accounted as intangible assets.
- ② Pursuant to the Notice of the Ministry of Finance, the SAT and the Ministry of Science and Technology on Increasing the Ratio of the Additional Deduction of Research and Development Expenses (《財政部稅務總局科技部關於提高研究開發費用稅前加計扣除比例的通知》) (Cai Shui [2018] No.99) and the Announcement of the Ministry of Finance and the SAT on Extending the Implementation Period of Certain Preferential Tax Policies (Cai Shui [2021] No. 6), the R&D expenses actually incurred in the R&D activities of enterprises that have not accounted as intangible assets and included in the profit or loss, shall be deducted at 75% of the actual amount before tax incurred and on an actual basis as required prior to 31 December 2023; or be amortized at 175% of the intangible assets before tax which would be accounted during the above period if they are accounted as intangible assets.
- ③ In accordance with the Enterprise Income Tax Law of the People's Republic of China and its implementation regulations, the enterprise income tax shall be levied at a reduced rate of 15% for high-tech enterprises greatly supported by the state.

**11. Forecast of other profit or loss items**

Other income, non-operating income and non-operating expenses are of non-operating business income and expenditure in nature, which are uncertain and will not be forecasted. Asset impairment losses are non-recurring items and could not be deferred, no forecast has been made.

**12. Forecast of capital expenditures:**

The future capital expenditures are forecasted on basis of normal upgrade and renovation of existing assets, and that the company would maintain existed asset scale and condition, combining with the company's history, asset investment and depreciation and amortization policies. The forecast of capital expenditures is as follows:

*Unit: RMB0'000*

Item	2022	2023	2024	2025	2026 and afterwards
Upgrade of existing assets	3,595.91	3,369.58	3,284.64	3,273.16	3,273.16
Total	3,595.91	3,369.58	3,284.64	3,273.16	3,273.16

**13. Forecast of depreciation and amortization:**

The depreciation and amortization is forecasted based on the existing fixed assets and intangible assets on the valuation benchmark date and in which are required to be additionally invested to meet the ordinary business activities in the future, according to the current policies of the company on fixed assets, intangible assets and long-term deferred assets, and adopting the straight-line method. The depreciation and amortization for the year is set out in the table below:

*Unit: RMB0'000*

Item	2022	2023	2024	2025	2026 and afterwards
I. Depreciation	2,603.16	2,603.16	2,603.16	2,603.16	2,603.16
II. Amortization	992.75	766.42	681.48	670.00	670.00
1. Amortization of intangible assets	670.00	670.00	670.00	670.00	670.00
2. Amortization of long-term deferred assets	322.75	96.42	11.48		
Total	3,595.91	3,369.58	3,284.64	3,273.16	3,273.16

**14. Forecast of additional working capital:**

The increase in working capital refers to the increase in working capital required by an enterprise to maintain its ability to continue as a going concern without changing its current main business, such as the amount of cash required to maintain normal production and operation, the amount of capital required for the purchase of product inventories, the outstanding amount payable but unpaid by customers, and amount payables, etc. After analysis, most of other receivables and other payables accounted for of the company are unrelated to the main business or are of non-recurring nature. When forecasting, balance is assumed to be maintained stable on the benchmark date; the balance of taxes payable and payroll payable is

assumed to be maintained stable on the benchmark date due to fast turnover, relatively short default period and of relatively small amount. Therefore, the increase in working capital in the valuation only takes into consideration of the main factors including cash, accounts receivable, inventory and accounts payable required for maintaining normal operation, of which:

Increase in working capital = current working capital demand - previous working capital demand

Working capital demand = minimum cash at hand + average balance of accounts receivable + average balance of inventories - average balance of accounts payable

After discussion with the financial manager of the company, it is expected that the minimum amount of cash at hand required for daily operation by the company represents the total out-of-pocket costs of the company for one month. Of which:

Out-of-pocket costs for the year = total forecasted operating costs + total forecasted expenses for the period + total forecasted taxes and surcharges - total forecasted non-out-of-pocket costs (depreciation and amortization)

Average balance of accounts receivable = current forecasted sales revenue/historical turnover rate of accounts receivable

Average balance of inventories = current forecasted sales cost/historical inventory turnover rate

Average balance of accounts payable = forecasted sales cost/historical turnover rate of accounts payable

(1) Working capital of the appraised entity in the previous three years

A. Working capital amount

Unit: RMB0'000

Item	2019	2020	2021
Cash	8,473.39	30,492.31	23,916.46
Accounts receivable	10,049.08	19,414.24	33,506.43
Inventories	14,228.21	5,418.72	15,454.35
Accounts payable	18,848.37	47,828.43	58,703.95
Working capital	13,902.30	7,496.85	14,173.28

B. Working capital turnover

Item	2019	2020	2021	Average
Turnover rate of accounts receivable	6.98	9.09	5.78	7.28
Inventory turnover rate	6.50	11.66	12.69	10.28
Turnover rate of accounts payable	3.62	3.44	2.49	3.18

(2) *Forecast of cash demand*

In combination with the cash utilization of the company in the past years, the minimum cash at hand required for the company's operation in the coming years is forecasted. Based on the analysis of the cash payment of the company in the past years and the communication with the financial personnel of the company, the minimum cash at hand required refers to the total out-of-pocket costs of the company for one month. The details are shown in the table below:

*Unit: RMB0'000*

Item	2022	2023	2024	2025	2026 and afterwards
Operating costs	132,351.65	138,785.37	152,001.08	166,518.47	166,518.47
Selling expenses	2,753.93	2,887.21	3,160.59	3,460.86	3,460.86
Administrative expenses	6,744.90	6,846.29	7,000.82	7,165.99	7,165.99
Finance costs	495.00	450.00	450.00	450.00	450.00
R&D expenses	6,721.67	7,047.85	7,716.95	8,451.89	8,451.89
Taxes and surcharges	121.38	127.27	139.36	152.63	152.63
Depreciation and amortization	3,595.91	3,369.58	3,284.64	3,273.16	3,273.16
Total out-of-pocket costs	145,592.62	152,774.41	167,184.16	182,926.69	182,926.69
Cash demand for one month	12,132.72	12,731.20	13,932.01	15,243.89	15,243.89

(3) *Forecast of accounts receivable, inventories and accounts payable*

Accounts receivable (including bills receivable, accounts receivable and prepayments), inventories and accounts payable (including bills payable, accounts payable and advances) are forecasted by the following formula, and the specific calculation method is as follows:

Accounts receivable for the year = sales revenue of the year/turnover rate of accounts receivable

Inventories for the year = sales cost for the year/inventory turnover rate

Accounts payable for the year = sales cost for the year/turnover rate of accounts payable

For the appraisal, the turnover rate is forecasted by reference to the average turnover of accounts receivable, inventories and accounts payable of the appraised entity in 2019 to 2021.

The forecast of working capital in the coming years is shown in the table below:

*Unit: RMB0'000*

Item	Valuation	2022	2023	2024	2025	2026 and afterwards
	benchmark date					
Cash	23,916.46	12,132.72	12,731.20	13,932.01	15,243.89	15,243.89
Accounts receivable	33,506.43	20,842.12	21,853.53	23,928.23	26,207.08	26,207.08
Inventories	15,454.35	12,874.67	13,500.52	14,786.10	16,198.30	16,198.30
Accounts payable	58,703.96	41,620.01	43,643.20	47,799.08	52,364.30	52,364.30
Working capital	14,173.28	4,229.50	4,442.06	4,847.26	5,284.96	5,284.96
Additional working capital		-9,943.78	212.56	405.20	437.70	0.00

#### 15. Determination of discount rate:

In order to maintain consistency with the caliber of cash flows in the Forecast, the discount rate used in the appraisal is the weighted average cost of capital (i.e. WACC model), calculated as follows:

$$WACC = k_e \times E/(E+D) + k_d \times (1-T) \times D/(E+D)$$

where:  $k_e$ : cost of equity capital;

$k_d$ : cost of interest-paying debt capital;

E: equity;

D: interest-bearing debt;

T: income tax rate.

(1) A common method for estimating the cost of equity capital is the Capital Asset Pricing Model (CAPM), calculated as follows:

$$K_e = R_f + \beta \times ERP + R_c$$

where:  $R_f$ : current rate of risk-free return

$\beta$  : systematic risk factor of the industry in which the business operates

ERP: market risk premium

Rc: specific risk adjustment factor of an enterprise

1) *Rate of risk-free return*

The yield to maturity of 3.9719% of treasury bonds with remaining maturity of more than 10 years as at the valuation benchmark date was selected as the rate of risk-free return.

2) *Determination of the systematic risk factor of equity*

The calculation formula for the systematic risk factor of equity of the appraised entity is as follows:

$$\beta_L = [1 + (1-t) \times D/E] \times \beta_U$$

where:  $\beta_L$ : systematic risk factor of equity with financial leverage;

$\beta_U$ : systematic risk factor of equity without financial leverage;

t: income tax rate of the appraised enterprise;

D/E: the target capital structure of the appraised enterprise.

Based on the business characteristics of the appraised entity, the asset valuation professionals checked the  $\beta_U$  values of three comparable listed companies in Shanghai and Shenzhen (such as Desay Battery (德賽電池)) as at 31 December 2021 through the CHOICE financial terminal information system. The specific data are shown in the following table:

No.	Stock Code	Company Abbreviation	$\beta_U$ value	Capital
				Structure D/E
1	000049	Desay Battery (德賽電池)	1.1592	0.4535
2	300207	Sunwoda (欣旺達)	1.3202	0.7679
3	002245	Azure Lithium Core (蔚藍鋰芯)	0.8801	0.6588
Average			1.1198	62.67%

The average capital structure of 62.67% was taken as the target capital structure of the appraised entity. The income tax rate of the appraised entity as at the valuation benchmark date was 15%.

The systematic risk factor of equity of the appraised entity was calculated by substituting the parameters determined above into the calculation formula of the systematic risk factor of equity.

$$\begin{aligned}\beta_L &= [1 + (1-t) \times D/E] \times \beta_U \\ &= [1 + (1-15\%) \times 0.6267] \times 1.1198 \\ &= 1.7163\end{aligned}$$

3) *Determination of market risk premium*

Estimation of the average capital market yield and market risk premium ERP

Investment return in the equity market is a typical representation of return in the capital market. Risk-return in the equity market is the excess of risk-free return that an investor expects from investing in the equity market and can also be considered a typical representation of market risk premium. The correct estimation of risk-return in the equity market has been the subject of research by many stock analysts. For example, a study by Ibbotson Associates in the U.S. found that from 1926 to 1997, the average annual compound rate of return on equity investments in large corporations was 11.0%, exceeding the long-term treasury bond yields (approximately 5.8%); the geometric mean of this difference is considered by the industry as the risk-return ERP for equity investments in mature markets.

With reference to the idea of ERP estimation by the relevant U.S. institution, we estimate the investment return and risk-return ERP (hereinafter referred to as ERP) of the equity market in China as follows:

- ① Index selected to measure the ERP of the equity market: In order to estimate the investment return in the equity market, firstly, it is necessary to determine the index that measures the volatility and change in equity market. Currently, there are many indices in Shanghai market and in Shenzhen market, but the index we selected should be the one that can best reflect the changes of mainstream stocks in the market. With reference to the idea and experience of the S&P 500 Index selected by the relevant U.S. institution to estimate the ERP of the U.S. equity market, we selected CSI 300 as the index to measure the ERP of the equity market in China.
- ② Index period selected: As we all know, equity market in China started in the early 1990s. It developed rapidly in the first few years but was not regulated enough until 1996 when it gradually became formalized. Considering the above, to measure the ERP of the equity market in China, we calculated the period starting from 1998, which means, the period selected for the index is between 1 January 1998 and 31 December 2021.

③ Access to index components and the information: The constituent stocks of CSI 300 index change every year, so we use the constituent stocks of CSI 300 index as at the end of each year in our estimation. For the years 1999 to 2003 before the launch of CSI 300 Index, we use the extrapolation method to extrapolate its relevant information, which means that, we use the constituent stocks of CSI 300 Index as at the end of 2004 to extrapolate the data in years 1999 to 2003, which also means that, we assume that the constituent stocks from 1997 to 2003 are the same as those at the end of 2004. With respect to the collection of relevant data, in order to simplify the measurement process in the ERP measurement for the appraisal, we use the information system of Flush Information to select the year-end closing prices of the constituent stocks as at the end of each year as the base data for the measurement. Since the earnings of the constituent stocks should include earnings generated from annual dividends, dividend payout and bonus shares, the year-end closing prices of the constituent stocks we selected is the compounded year-end closing price that includes earnings generated from annual dividends, dividend payout and bonus shares, to fully reflect the earnings profile of each constituent stock for each year.

④ The annual rate of return is calculated using both arithmetic average and geometric average:

A. Calculation of arithmetic average:

Assume: The annual rate of return is  $R_i$ , then:

$$R_i = \frac{P_i - P_{i-1}}{P_{i-1}} \quad (i = 1, 2, 3, \dots)$$

where:  $R_i$  is the return in year  $i$

$P_i$  is the year-end closing price of year  $i$  (compounded)

$P_{i-1}$  is the year-end closing price of year  $i-1$  (compounded)

Assuming that the arithmetic average rate of return from year 1 to year  $n$  (not exceeding 10 years) is  $A_i$ , then:

$$A_i = \frac{\sum_{i=1}^n R_i}{N}$$

where:  $A_i$  is the arithmetic average of the returns of constituent stocks from year 1 (i.e. 1998) to year  $n$ ,  $n = 1, 2, 3, \dots, 10$ .

$N$  is the number of items

Based on the principle of investment risk diversification, the calculated investment return of the arithmetic average of all constituent stocks of CSI 300 for each year is simply averaged to obtain the reference value of the capital market investment return for the year of calculation.

B. Calculation of geometric average:

Assuming that the geometric average rate of return from year 1 to year  $i$  be  $C_i$ , then:

$$C_i = \sqrt[i]{\frac{P_i}{P_0}} - 1 \quad (i = 1, 2, 3, \dots)$$

where:  $P_i$  is the closing price as at the end of year  $i$  (compounded)

$P_0$  is the closing price as at the end of the base period 1997 (compounded)

Based on the principle of investment risk diversification, the calculated investment return of the geometric average of all constituent stocks of CSI 300 for each year is simply averaged to obtain the reference value of the capital market investment return for the year of calculation.

- ⑤ Estimation of risk-free yield  $R_{fi}$  as at the end of each year of the calculation period: In order to estimate the ERP for each year, it is necessary to estimate the risk-free yield  $R_{fi}$  as at the end of each year of the calculation period. In the appraisal, we use the yield to maturity rate (Yield to Maturity Rate) of treasury bonds as the risk-free yield; the selection criteria for the sample are the treasury bonds with remaining maturity of more than 10 years as at the end of each year, and finally the average of the yield to maturity of all selected treasury bonds is used as the risk-free yield  $R_{fi}$  at the end of each year.
- ⑥ Estimation conclusion:

After the above calculation and analysis, the arithmetic average return and geometric average return of CSI 300 constituent stocks for each year were obtained, and the arithmetic average value of the arithmetic average return or geometric average return of all constituent stocks was used as the return rate of the equity market for each year, and then compared with the risk-free return for each year to obtain the ERP of the equity market for each year. The estimation formula is as follows:

A. Arithmetic average method:

$$ERP_i = A_i - R_{fi} \quad (i = 1, 2, \dots)$$

B. Geometric average method:

$$ERP_i = C_i - R_{fi} \quad (i = 1, 2, \dots)$$

C. Estimation results:

The estimated results of ERP for each year from 2012 to 2021, estimated by the above two methods, are as follows:

No.	Year	R <sub>m</sub> Arithmetic Average Yield	R <sub>m</sub> Geometric Average Yield	R <sub>f</sub> Risk-free rate of return (Yield to maturity of treasury bonds with remaining maturity of more than 10 years)	ERP (Arithmetic average rate of return - R <sub>f</sub> )	ERP (Geometric average return - R <sub>f</sub> )
1	2012	30.95%	5.65%	4.16%	26.79%	1.49%
2	2013	37.47%	10.32%	4.29%	33.18%	6.03%
3	2014	44.18%	17.76%	4.31%	39.87%	13.45%
4	2015	45.35%	19.38%	4.21%	41.13%	15.17%
5	2016	34.76%	11.86%	4.12%	30.64%	7.74%
6	2017	20.73%	5.44%	4.22%	16.50%	1.22%
7	2018	20.19%	7.01%	4.12%	16.07%	2.90%
8	2019	20.54%	9.37%	4.10%	16.43%	5.27%
9	2020	24.57%	12.09%	4.07%	20.50%	8.01%
10	2021	27.27%	13.93%	3.97%	23.29%	9.95%
	Average	30.60%	11.28%	4.16%	26.44%	7.12%

Since the geometric average yield can better reflect the long-term trend of equity market yields, the difference of 7.12% between the average value of geometric average yield of 11.28% for a total of 10 years from 2012 to 2021 and

the average yield to maturity of 4.16% for treasury bonds with remaining maturity of more than 10 year for the same period is used as the market risk premium for the project, which means, the market risk premium (ERP) for the Project is 7.12%.

4) *Determination of the specific risk-reward rate of the enterprise*

The business scale of the appraised entity is relatively small compared with that of comparable companies, and considering that the enterprise is more dependent on the main material suppliers, the specific risk-reward rate is taken as 2%.

5) *Determination of discount rate for the forecast period*

(1) Calculation of the cost of equity capital

The cost of equity capital of the appraised entity is calculated by substituting the parameters determined above into the cost of equity capital calculation formula.

$$\begin{aligned} K_e &= R_f + \beta \times ERP + R_c \\ &= 3.9719\% + 1.7163 \times 7.12\% \times 2\% \\ &= 18.19\% \end{aligned}$$

(2) Calculation of weighted average cost of capital

The average of the capital structure of three comparable listed companies was taken as the target capital structure of the appraised entity. The cost of debt capital was determined with reference to the bank loan market interest rate (LPR) of 4.65% for the same period.

$$\begin{aligned} WACC &= K_e \frac{E}{D + E} + K_d \times (1-t) \times \frac{D}{D + E} \\ &= 18.19\% \times (1 - 38.53\%) + 4.65\% \times 38.53\% \times (1 - 15\%) \\ &= 12.71\% \end{aligned}$$

**16. *Determination of the valuation of the present value of earnings method:***

The present value of the expected future earnings (net cash flow of the enterprise) is calculated according to the formula and the selection of parameters of the present value of earnings method.

$$P = \sum R_i / (1 + r)^i + R_5 / r / (1 + r)^5$$

where: P - the value of the present value of earnings method;

$R_i$  - the expected amount of earnings (corporate net cash flow) of the company in the future year  $i$ ;

$i$  - earnings period;

$r$  - discount rate.

The discount rate is used to discount the expected earnings for the next five years, the net earnings for each of the next five years are assumed to be equal, and the principal amount after five years is obtained by its principalization. The principal amount after five years is discounted to its present value, and the discounted value for the next five years and the discounted value after five years are added together to obtain the results of the income approach. Details are listed in the table below:

*Unit: RMB'0,000*

Item	2022	2023	2024	2025	2026 and afterwards
Operating income	151,730.65	159,093.73	174,197.52	190,787.54	190,787.54
Less: Operating cost	132,351.65	138,785.37	152,001.08	166,518.47	166,518.47
Tax and surcharge	121.38	127.27	139.36	152.63	152.63
Administrative expense	6,744.90	6,846.29	7,000.82	7,165.99	7,165.99
Selling expense	2,753.93	2,887.21	3,160.59	3,460.86	3,460.86
Research and development expense	6,721.67	7,047.85	7,716.95	8,451.89	8,451.89
Finance Cost	495.00	450.00	450.00	450.00	450.00
Total profit	2,542.12	2,949.74	3,728.73	4,587.69	4,587.69
Income tax				54.26	54.26
Net profit	2,542.12	2,949.74	3,728.73	4,533.43	4,533.43
Add: Depreciation and amortization	3,595.91	3,369.58	3,284.64	3,273.16	3,273.16
Interest after tax	420.75	382.50	382.50	382.50	382.50
Less: Capital expenditure	3,595.91	3,369.58	3,284.64	3,273.16	3,273.16
Less: Increase in working capital	-9,943.78	212.56	405.20	437.70	-
Annual free cash flow	12,906.65	3,119.68	3,706.03	4,478.23	4,915.93
Discount rate	12.71%	12.71%	12.71%	12.71%	12.71%
Discount factor	0.9419	0.8358	0.7415	0.6579	5.1780
Discounted value	12157.36	2607.28	2748.14	2946.37	25454.65
Total net present value	45913.80				

## (II) Appraisal of surplus assets, non-operating assets and liabilities

### 1. Appraisal of surplus assets

Surplus assets refer to surplus assets that are not directly related to the revenue of the enterprise and are more than necessary for the operation of the enterprise. After analysis, the appraised entity has no surplus assets.

## 2. Appraisal of non-operating assets and liabilities

Non-operating assets and liabilities refer to assets and liabilities that are not related to the production and operation of the appraised entity. The status of non-operating assets and liabilities of the appraised entity and the appraisal value as at the valuation benchmark date are set out in the following table:

*Unit: RMB'0,000*

Item	Appraisal value	Note
<b>I. Total non-operating assets</b>	2,327.10	
1. Projects in progress	170.66	PLM project and interior decoration
2. Prepaid amounts	318.56	Equipment
3. Other receivables - Scud Energy Technology Co., Ltd. (Business Division at Headquarters)	95.23	Payment
4. Long-term equity investments	1,742.65	Jiangsu Scud Power Technology Co., Ltd. (江蘇飛毛腿動力科技有限公司)
<b>II. Total non-operating liabilities</b>	2,330.40	
1. Other payables - Jiangsu Scud Power Technology Co., Ltd. (江蘇飛毛腿動力科技有 限公司)	2,330.40	Payment
<b>III. Net difference</b>	-3.30	

### (III) Results of the income approach

#### 1. Calculation of overall enterprise value

Overall enterprise value = Value of operating assets + value of non-operating assets and liabilities + value of surplus assets

$$= 45,913.80 - 3.3$$

$$= 45,910.5 \text{ (RMB'0,000)}$$

**2. *Determination of the value of interest-bearing debts***

As at the valuation benchmark date, the interest-bearing debts of the appraised entity were short-term borrowings of RMB30 million and borrowings of RMB60 million made from Fuzhou Economic and Technological Development Zone Mincheng Equity Investment Partnership (Limited Partnership) (福州經濟技術開發區閩誠股權投資合夥企業(有限合夥)), totaling RMB90 million.

**3. *Calculation of the value of total shareholders' equity***

Based on the above appraisal, the value of the total shareholders' equity of Fujian Scud Power Technology Co., Ltd. (福建飛毛腿動力科技有限公司):

$$\begin{aligned} \text{Value of the total shareholders' equity} &= \text{overall enterprise value} - \text{interest-bearing debts} \\ &= 45,910.5 - 9,000.00 \\ &= 36,910.50 \text{ (RMB'0,000)} \end{aligned}$$

**VIII. APPRAISAL CONCLUSION****(I) Appraisal Results of Two Appraisal Methods**

Based on the principles of independence, impartiality, science and objectivity, the asset appraiser has applied the statutory procedures and methods for asset appraisal, and adopted the asset-based method and the income approach to evaluate the value of the total shareholders' equity of Fujian Scud Power Technology Co., Ltd. (福建飛毛腿動力科技有限公司) in connection with the proposed investment by Scud Battery Co., Ltd. (飛毛腿電池有限公司).

***1. Appraisal by the asset-based method***

Based on the principles of independence, impartiality, science and objectivity, the asset appraiser has applied the statutory procedures and methods for asset appraisal, and adopted the asset-based method to evaluate the value of the total shareholders' equity of Fujian Scud Power Technology Co., Ltd. (福建飛毛腿動力科技有限公司) in connection with the proposed investment by Scud Battery Co., Ltd. (飛毛腿電池有限公司). As audited by Fujian Jonchern Public Accounting Firm, Ltd. (福建眾誠有限責任會計師事務所), the carrying value of the total assets of Fujian Scud Power Technology Co., Ltd. (福建飛毛腿動力科技有限公司) was RMB968,389,200, the carrying value of total liabilities was RMB722,591,400 and the carrying value of total shareholders' equity was RMB245,797,800. Upon satisfying all the appraisal assumptions and preconditions specified in the asset valuation report, the appraised value of the total shareholders' equity (net assets) as at the appraisal benchmark date was RMB279,457,200 (RMB two hundred and seventy-nine million four hundred and fifty-seven thousand two hundred) under the asset-based method, with an appraisal appreciation of RMB33,659,400, representing an appreciation rate of 13.69%. Details of the appraisal results are set out in the following table:

Item		Carrying value	Appraised value	Appreciation or impairment	Appreciation rate %
		(RMB'0,000)	(RMB'0,000)	(RMB'0,000)	
		A	B	C=B-A	D=C/A×100%
1	Current Assets	73,762.71	75,415.47	1,652.76	2.24
2	Non-current assets	23,076.21	24,789.39	1,713.18	7.42
3	Of which: Long-term equity investments	1,000.00	1,742.65	742.65	74.27
4	Investment properties	-	-	-	
5	Fixed assets	7,531.25	8,501.78	970.53	12.89
6	Construction in progress	170.66	170.66	-	-
7	Intangible assets	5,561.04	5,561.04	-	-
8	Development expenses	8,382.61	8,382.61	-	-
9	Long-term amortization	430.65	430.65	-	-
10	Total assets	96,838.92	100,204.86	3,365.94	3.48
11	Current liabilities	72,259.14	72,259.14	-	-
12	Non-current liabilities	-	-	-	
13	Total liabilities	72,259.14	72,259.14	-	-
14	Net assets (Shareholders' Equity)	24,579.78	27,945.72	3,365.94	13.69

**Changes in the appraisal results compared with the carrying value and the reasons therefor**

- (1) Appraisal appreciation of current assets amounted to RMB16,527,600, representing an appreciation rate of 2.24%. The appraisal appreciation was due to the deduction of relevant taxes and surcharges, and income taxes from the normal sales of finished goods in inventories based on the sales prices of similar products provided by the enterprise before and after the benchmark date.
- (2) Appraisal appreciation of long-term equity investments amounted to RMB7,426,500, representing an appreciation rate of 74.27%. The appraisal appreciation was due to the fact that the enterprise adopted the cost method of accounting for its investee units and the reported carrying amount was the original investment cost, and after the appraisal of long-term equity investments, the appraisal value was higher than the carrying amount of investment cost, resulting in the appraisal of appreciation.
- (3) Appraisal appreciation value of fixed assets amounted to RMB9,705,300, representing an appreciation rate of 12.89%. The appraisal appreciation was due to several reasons, such as the rapid renewal of technology of

machinery and equipment, vehicles and electronic equipment, the year-on-year decrease in product prices, and the difference between the accounting depreciation period and the economic useful life used for appraisal.

## 2. *Appraisal by the income approach*

As audited by Fujian Jonchern Public Accounting Firm, Ltd. (福建眾誠有限責任會計師事務所), the carrying value of the total shareholders' equity of Fujian Scud Power Technology Co., Ltd. (福建飛毛腿動力科技有限公司) as at the appraisal benchmark date was RMB245,797,800. Upon satisfying all the appraisal assumptions and preconditions specified in the asset valuation report, it was assessed and estimated that the appraised value of the total shareholders' equity of the appraisal object as at the appraisal benchmark date was RMB369,105,000, with an appraisal appreciation of RMB123,307,200, representing an appreciation rate of 50.17%.

## (II) Selection of Appraisal Conclusion

The appraised value of the total shareholders' equity (net assets) of Fujian Scud Power Technology Co., Ltd. (福建飛毛腿動力科技有限公司) was RMB279,457,200 under the asset-based method. The appraised value of the total shareholders' equity (net assets) of Fujian Scud Power Technology Co., Ltd. (福建飛毛腿動力科技有限公司) was RMB369,105,000 under the income approach. The difference between the results of the two methods was RMB89,647,800, and there is a difference between the appraisal results of the income approach and the appraisal results of the asset-based method. The asset-based method is based on the assets and liabilities recorded in the accounts of the appraised enterprise as the starting point from the perspective of current cost. The appraised value of the equity in the appraised enterprise is determined by adding up the appraised value of the various elemental assets that constitute the enterprise and subtracting the appraised value of the liabilities. The income approach in a valuation is based on the expected return of the asset as the value criterion, which reflects the magnitude of the asset's ability to operate (profitability). The core assets of Fujian Scud Power Technology Co., Ltd. (福建飛毛腿動力科技有限公司) are mainly off-book intangible assets such as patented technologies, R&D capabilities, marketing channels, customer resources and sales networks, which cannot be reflected in the accounts and cannot be accurately assessed individually. The asset-based method is a simple summation of assets and does not consider the impact of intangible assets on the overall value of the Company. The income approach includes not only the income from tangible assets, but also the income from intangible assets (such as patent technology, customer relationships, research and development capabilities, etc.).

Based on the above analysis and in accordance with the purpose of the appraisal, we have selected the results of the income approach as the final conclusion of the appraisal. On the basis of satisfying all the assumptions, premises and restrictions in this report, the appraised value of the total shareholders' equity of Fujian Scud Power Technology Co., Ltd. (福建飛毛腿動力科技有限公司) as at 31 December 2021 (the appraisal benchmark date) was RMB369,105,000 (RMB three hundred and sixty-nine million one hundred and five thousand).

**A. RESPONSIBILITY STATEMENT**

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

**B. DISCLOSURE OF INTERESTS****1. Directors' and chief executives' interests and short positions in the Shares, underlying Shares and debentures**

As at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interest or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are (i) required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she is taken or was deemed to have under such provisions of the SFO); (ii) required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules, to be notified to the Company and the Stock Exchange.

**2. Substantial Shareholders' and others' interests and short positions in the Shares and underlying Shares**

So far as it is known to the Directors of the Company, as at the Latest Practicable Date, the following persons (not being a Director or chief executive of the Company) had an interest or short position in the Shares or the underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO:

*Long Positions – Ordinary Shares*

Name of Shareholder	Class of shares	Number of Shares	Approximate percentage of the Company's issued share capital (%)
Swift Joy Holdings Limited	Beneficial owner	423,770,000	38.88%
Right Grand Holdings Limited	Beneficial owner	128,568,000	11.80%
Fang Jin	Interest in controlled corporations	552,338,000	50.67%

*Notes:*

1. We have applied the number of shares of the Company in issue as at the Latest Practicable Date, i.e. 1,090,001,246 shares, when calculating this percentage.
2. Each of Swift Joy Holdings Limited and Right Grand Holdings Limited was a private company directly wholly-owned by Mr. Fang Jin.
3. Among 552,338,000 shares, 423,770,000 shares were owned by Swift Joy Holdings Limited and 128,568,000 shares were owned by Right Grand Holdings Limited (see also Note 2 above).

Save as disclosed above, as at the Latest Practicable Date, the Company has not been notified by any person who had interests or short positions in the Shares or underlying Shares as recorded in the register required to be kept by the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

**C. DIRECTORS' SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

**D. DIRECTORS' INTERESTS IN ASSETS OR CONTRACTS OR ARRANGEMENT**

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which have since 31 December 2021, being the date to which the latest published audited consolidated financial statements of the Group were made up, been acquired or disposed of by, or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

As at the Latest Practicable Date, none of the Directors were materially interested, directly or indirectly, in any subsisting contract or arrangement entered into by any member of the Group which was significant in relation to the business of the Group.

**E. COMPETING INTERESTS**

As at the Latest Practicable Date, none of the Directors and their respective associates were interested in any business, apart from the business of the Group, which competed or was likely to compete, either directly or indirectly, with that of the Group.

**F. EXPERT'S CONSENT AND QUALIFICATIONS**

The following are the qualifications of the experts who have given opinions or advice which are contained in this circular:

<b>Name</b>	<b>Qualifications</b>
Red Solar Capital Limited	a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities as defined under the SFO
正衡資產評估房地產估價(福建)有限公司 (Zhengheng Asset Appraisal Real Estate Appraisal (Fujian) Co., Ltd.*)	independent property valuer
聯合中和土地房地產資產評估有限公司 (United Zhonghe Land Real Estate Asset Appraisal Co., Ltd.*)	independent enterprise valuer

\* For identification purpose only

Each of the experts above had given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter(s), report(s), opinion(s) and/or valuation certificate(s) and the references to their names included herein in the form and context in which it is respectively included.

Each of the experts above confirmed that as at the Latest Practicable Date, it did not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group, nor did it have any direct or indirect interests in any assets which have since 31 December 2021 (being the date to which the latest published audited consolidated financial statements of the Group were made up) been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

**G. MATERIAL ADVERSE CHANGE**

The Directors confirm that, as at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2021, being the date to which the latest audited consolidated financial statements of the Group were made up.

**H. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be published on the Company's website ([www.vesonhldg.com](http://www.vesonhldg.com)) and the HKEXnews website ([www.hkexnews.hk](http://www.hkexnews.hk)) from the date of this circular up to and including the date of the EGM:

- (a) the Investment Agreement;

- (b) the letter from the Independent Board Committee, the text of which is set out on pages 19 to 20 of this circular;
- (c) the letter from the Independent Financial Adviser, the text of which is set out on pages 21 to 45 of this circular;
- (d) the property valuation report from the Independent Property Valuer, the text of which is set out in Appendix I to this circular;
- (e) a summary of the enterprise valuation report from the Independent Enterprise Valuer, the text of which is set out in Appendix II to this circular;
- (f) the consent letters referred to in the paragraph headed “Expert’s consent and qualifications” in this Appendix; and
- (g) this circular.

**I. MISCELLANEOUS**

The English text of this circular shall prevail over the Chinese text, in the event of inconsistency.

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## NOTICE OF THE EGM

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### VESON HOLDINGS LIMITED 銳信控股有限公司

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 01399)**

#### NOTICE OF THE EXTRAORDINARY GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting (the “**EGM**”) of Veson Holdings Limited (the “**Company**”) will be held at Head Office, Scud Industrial Park, Fuzhou Pilot Free Trade Zone, No. 98 Jiangbin East Avenue, Mawei District, Fuzhou, Fujian Province, PRC, on Thursday, 1 December 2022 at 10 a.m. for the purposes of considering, and if thought fit, pass the following resolution which will be proposed, with or without modification, as ordinary resolution. Capitalised terms contained in the circular dated 14 November 2022 issued by the Company (the “**Circular**”) shall have the same meanings when used herein unless otherwise specified.

#### ORDINARY RESOLUTION

**“THAT:**

- (a) the Investment Agreement and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified; and
- (b) any one Director of the Company be and is hereby authorised on behalf of the Company to do or take all acts, things and steps and to sign and execute all such documents, instruments and agreements for and on behalf of the Company as he/she may consider necessary, appropriate, desirable or expedient to give effect to or in connection with paragraph (a) of this resolution.”

By order of the Board  
**Veson Holdings Limited**  
**Feng Ming Zhu**  
*Chairman*

Hong Kong, 14 November 2022

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## NOTICE OF THE EGM

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*Notes:*

- (1) The register of members of the Company will be closed for registration of transfer of Shares from Monday, 28 November 2022 to Thursday, 1 December 2022 (both days inclusive) to determine the entitlement to attend and vote at the EGM. In order to qualify for attending and voting at the EGM, all transfer documents should be lodged for registration with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong on or before 4:30 p.m., Friday, 25 November 2022.
- (2) Any member of the Company entitled to attend and vote at the EGM is entitled to appoint a proxy to attend and vote instead of him/her. A proxy need not be a member of the Company. A member who is the holder of two or more Shares of the Company may appoint more than one proxy to represent him/her to attend and vote on his/her behalf. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.
- (3) Where there are joint registered holders of any Share, any one of such persons may vote at the EGM, either in person or by proxy, in respect of such Share as if he/she were solely entitled thereto, but if more than one of such joint holders be present at the EGM personally or by proxy, that one of the said persons so present whose name stands first on the register in respect of such Share shall alone be entitled to vote in respect thereof.
- (4) To be effective, a form of proxy together with the power of attorney or other authority, if any, under which it is signed or a certified copy of that power or authority, must be deposited at the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the EGM (not later than 10:00 a.m. on Tuesday, 29 November 2022) or any adjournment thereof. Completion and return of the form of proxy shall not preclude a member of the Company from attending and voting in person at the EGM and, in such event, the instrument appointing a proxy shall be deemed to be revoked.
- (5) The resolution at the EGM will be taken by poll pursuant to the Listing Rules and the results of the poll will be published on the websites of Stock Exchange and the Company in accordance with the Listing Rules.
- (6) To safeguard the health and safety of Shareholders, staff and other stakeholders and to prevent the spreading of the Novel Coronavirus (COVID-19) pandemic, the following precautionary measures will be implemented at the EGM including, without limitation:
  - (i) Compulsory temperature screening/checks and health declaration
  - (ii) Compulsory wearing of your own surgical face masks
  - (iii) No distribution of refreshments, drinks, cake coupons or corporate gifts
  - (iv) Be seated as indicated

Any person who does not comply with the precautionary measures or is subject to any Hong Kong Government prescribed quarantine may be denied entry into the EGM venue or be required to leave the EGM venue, at the absolute discretion of the Company as permitted by law.
- (7) For the health and safety of Shareholders and all attendees, the Company reminds all Shareholders that physical attendance in person at the EGM is NOT necessary for the purpose of exercising voting rights and would like to encourage Shareholders to appoint the chairman of the EGM as their proxy to vote on the relevant resolution at the EGM according to their indicated voting instructions as an alternative and to return their forms of proxy by the time specified above.

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## NOTICE OF THE EGM

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- (8) In view of the travelling restrictions imposed by various jurisdictions including Hong Kong SAR to prevent the spread of COVID-19, certain Director(s) of the Company may attend the EGM through conference call or similar electronic means.
- (9) Subject to the development of COVID-19, the Company may implement further changes and precautionary measures and may issue further announcement(s) on such measures as appropriate.
- (10) As at the date of this notice, the Board comprises Mr. Feng Ming Zhu and Ms. Lian Xiu Qin being the executive Directors, Dr. Loke Yu being the non-executive Director, and Mr. Heng Ja Wei Victor, Mr. Lam Yau Yiu and Mr. Cheung Wai Kwok Gary being the independent non-executive Directors.