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## THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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If you are in doubt as to any aspect of the Proposal, this Scheme Document or as to the action to be taken, you should consult a licensed securities dealer or registered institution in securities, a bank manager, solicitor, professional accountant, or other professional adviser.

If you have sold or transferred all your shares in O-Net Technologies (Group) Limited, you should at once hand this Scheme Document and the accompanying forms of proxy to the purchaser or transferee or to the licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this Scheme Document, make no representation as to their accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Scheme Document.

This Scheme Document appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for any securities of O-Net Technologies (Group) Limited.

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### OPTICAL BETA LIMITED

*(incorporated in the British Virgin Islands with limited liability)*



### O-NET TECHNOLOGIES (GROUP) LIMITED

昂納科技（集團）有限公司

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

(Stock Code: 877)

## (1) PROPOSAL FOR THE PRIVATISATION OF O-NET TECHNOLOGIES (GROUP) LIMITED BY THE OFFEROR BY WAY OF A SCHEME OF ARRANGEMENT UNDER SECTION 86 OF THE COMPANIES LAW

## (2) PROPOSED WITHDRAWAL OF LISTING OF O-NET TECHNOLOGIES (GROUP) LIMITED

Financial Adviser to the Offeror



Independent Financial Adviser to the Independent Board Committee



SOMERLEY CAPITAL LIMITED

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Unless the context otherwise requires, capitalised terms used in this Scheme Document (including this cover page) shall have the same meaning as those defined in the section headed “Definitions” of this Scheme Document. A letter from the Board is set out on pages 22 to 43 of this Scheme Document. A letter from the Independent Board Committee containing its advice to the Disinterested Shareholders in relation to the Proposal is set out on pages 44 to 45 of this Scheme Document. A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee in connection with the Proposal is set out on pages 46 to 84 of this Scheme Document. The Explanatory Statement is set out on pages 85 to 125 of this Scheme Document. The actions to be taken by the Shareholders are set out on pages 1 to 4 of this Scheme Document. Notices convening the Court Meeting and the EGM to be held at 24/F., Admiralty Centre I, 18 Harcourt Road, Admiralty, Hong Kong on Friday, 25 September 2020 at 10:00 a.m. and 10:30 a.m. respectively (or, in the case of the EGM, as soon as practicable after the Court Meeting shall have concluded or been adjourned) are set out on pages NCM-1 to NCM-4 and EGM-1 to EGM-4 of this Scheme Document respectively. Whether or not you are able to attend the Court Meeting and/or the EGM or any adjournment thereof in person, if you are a Disinterested Shareholder, you are strongly urged to complete and sign the enclosed **pink** form of proxy in respect of the Court Meeting and if you are a Shareholder, you are strongly urged to complete and sign the enclosed **white** form of proxy in respect of the EGM, in accordance with the instructions printed thereon and to lodge them at the office of the Share Registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong as soon as possible, but in any event no later than the respective times and dates specified in them respectively. The **white** form of proxy in respect of the EGM will not be valid if it is not so lodged. In the case of the **pink** form of proxy in respect of the Court Meeting, it may also be handed to the Chairman of the Court Meeting (who will have absolute discretion on whether or not to accept it) at the Court Meeting if it is not so lodged. Completion and return of a form of proxy for the Court Meeting and/or the EGM will not preclude you from attending and voting in person at the relevant meeting or any adjournment thereof, should you so wish, and, in such event, the relevant form of proxy will be revoked by operation of law.

This Scheme Document is issued jointly by the Offeror and the Company. In case of inconsistency, the English language text of this Scheme Document shall prevail over the Chinese language text.

2 September 2020

## **NOTICE TO US INVESTORS**

The Proposal is being made to cancel the securities of a Cayman Islands company by means of a scheme of arrangement provided for under the laws of the Cayman Islands and is subject to Hong Kong disclosure requirements which are different from those of the United States. Any financial information included in this Scheme Document has been prepared in accordance with accounting standards applicable in Hong Kong and thus may not be comparable to financial information of US companies or companies whose financial statements are prepared in accordance with generally accepted accounting principles in the United States.

A transaction effected by means of a scheme of arrangement is not subject to the tender offer rules of the US Securities Exchange Act of 1934, as amended. Accordingly, the Proposal is subject to the disclosure requirements and practices applicable in the Cayman Islands and Hong Kong to schemes of arrangement which differ from the disclosure and procedural requirements applicable under the US federal securities laws.

This Scheme Document does not constitute an offer or invitation to purchase or subscribe for any securities.

The receipt of cash pursuant to the Proposal by a US holder of Scheme Shares as consideration for the cancellation of his Scheme Shares pursuant to the Scheme may be a taxable transaction for US federal income tax purposes and under applicable US state and local, as well as foreign and other tax laws. Each holder of Scheme Shares is urged to consult his independent professional adviser immediately regarding the tax consequences of the Proposal applicable to him.

It may be difficult for US holders of Scheme Shares to enforce their rights and claims arising out of the US federal securities laws, since the Offeror and the Company are located in a country other than the United States, and some or all of their officers and directors may be residents of a country other than the United States. US holders of Scheme Shares may not be able to sue a non-US company or its officers or directors in a non-US court for violations of the US securities laws. Further, it may be difficult to compel a non-US company and its affiliates to subject themselves to a US court's judgement.

## **SPECIAL ARRANGEMENTS FOR THE COURT MEETING AND THE EGM**

**Taking into account the recent development of the epidemic caused by coronavirus disease (COVID-19), the Company will implement the following prevention and control measures at the Court Meeting and the EGM to protect Shareholders from the risk of infection:**

- (a) compulsory body temperature checks will be conducted for every attending Shareholder or proxy at the entrance of the venue. Any person with a body temperature of over 37.3 degrees Celsius will not be admitted to the venue, but will be able to vote by submitting a voting slip to the scrutineer at the entrance of the venue;**

- (b) every attending Shareholder or proxy is required to wear a surgical mask throughout the Court Meeting and the EGM; and
- (c) no refreshments will be served at the Court Meeting and/or the EGM.

Furthermore, the Company wishes to advise all of the Shareholders, particularly any Shareholders who are subject to quarantine in relation to COVID-19, that they may appoint any person or the chairman of the Court Meeting and/or the EGM as a proxy to attend and vote on any of the resolutions, instead of attending the Court Meeting and/or the EGM in person.

The Company will closely monitor and ascertain the regulations and measures introduced or to be introduced by the HKSAR government, and if necessary will make further announcement(s) in case of any update regarding the precautionary measures to be implemented at the Court Meeting and/or the EGM.

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## TABLE OF CONTENTS

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	<i>Page</i>
ACTIONS TO BE TAKEN .....	1
DEFINITIONS .....	5
EXPECTED TIMETABLE .....	19
LETTER FROM THE BOARD .....	22
LETTER FROM THE INDEPENDENT BOARD COMMITTEE .....	44
LETTER FROM THE INDEPENDENT FINANCIAL ADVISER .....	46
EXPLANATORY STATEMENT .....	85
APPENDIX I — FINANCIAL INFORMATION RELATING TO THE GROUP .....	I-1
APPENDIX II — GENERAL INFORMATION .....	II-1
SCHEME OF ARRANGEMENT .....	S-1
NOTICE OF COURT MEETING .....	NCM-1
NOTICE OF EGM .....	EGM-1

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## ACTIONS TO BE TAKEN

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### 1. ACTIONS TO BE TAKEN BY SHAREHOLDERS

Disinterested Shareholders who are entitled to attend and vote at the Court Meeting and Shareholders who are entitled to attend and vote at the EGM are those whose names appear on the register of members of the Company as at the close of business on the Meeting Record Date, being Friday, 25 September 2020. In order to qualify to vote at the Court Meeting and the EGM, all transfers of share ownership accompanied by the relevant share certificates must be lodged with the Share Registrar at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong before 4:30 p.m. on Monday, 21 September 2020. A subsequent purchaser of Shares will need to obtain a proxy form from the transferor if he/she/it wishes to attend or vote at the Court Meeting or the EGM.

A **pink** form of proxy for use at the **Court Meeting** and a **white** form of proxy for use at the **EGM** are enclosed with this Scheme Document.

Whether or not you are able to attend the Court Meeting and/or the EGM or any adjournment thereof in person, if you are a Disinterested Shareholder, you are strongly urged to complete and sign the enclosed **pink** form of proxy in respect of the Court Meeting, and if you are a Shareholder, you are strongly urged to complete and sign the enclosed **white** form of proxy in respect of the EGM, in accordance with the instructions printed thereon, and to lodge them at the office of the Share Registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

**In order to be valid, the pink form of proxy for use at the Court Meeting should be lodged no later than 10:00 a.m. on Wednesday, 23 September 2020, which is 48 hours before the time appointed for holding the Court Meeting or any adjournment thereof. The pink form of proxy may also be handed to the Chairman of the Court Meeting (who will have absolute discretion on whether or not to accept it) at the Court Meeting. The white form of proxy for use at the EGM should be lodged no later than 10:30 a.m. on Wednesday, 23 September 2020, which is 48 hours before the time appointed for holding the EGM or any adjournment thereof, failing which it will not be valid.**

The completion and return of a form of proxy for the Court Meeting and/or the EGM will not preclude you from attending and voting in person at the relevant meeting or any adjournment thereof should you so wish, and, in such event, the relevant form of proxy will be revoked by operation of law.

If you do not appoint a proxy and you do not attend and vote at the Court Meeting and/or the EGM, you will still be bound by the outcome of the Court Meeting and/or the EGM if, among other things, the resolutions are passed by the requisite majorities of the Disinterested Shareholders or the Shareholders (as the case may be). You are therefore strongly urged to attend and vote at the Court Meeting and/or the EGM in person or by proxy.

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## ACTIONS TO BE TAKEN

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Voting at the Court Meeting and the EGM will be taken by poll as required under the Listing Rules and the Takeovers Code.

The Company and the Offeror will make an announcement in relation to the results of the Court Meeting and the EGM no later than 7:00 p.m. on Friday, 25 September 2020 and, if all the resolutions are passed at those meetings, further announcements will be made in relation to, among other things, the results of the hearing of the petition for the sanction of the Scheme by the Grand Court and, if the Scheme is sanctioned, the Scheme Record Date, the Effective Date and the date of withdrawal of listing of Shares from the Stock Exchange in accordance with the requirements of the Takeovers Code and the Listing Rules.

### **2. ACTIONS TO BE TAKEN BY BENEFICIAL OWNERS WHOSE SHARES ARE HELD BY A REGISTERED OWNER OR DEPOSITED IN CCASS**

No person shall be recognised by the Company as holding any Shares on trust.

If you are a Beneficial Owner whose Shares are registered in the name of a nominee, trustee, depositary or any other authorised custodian or third party, you should contact such Registered Owner to give instructions to and/or to make arrangements with such Registered Owner as to the manner in which the Shares beneficially owned by you should be voted at the Court Meeting and/or the EGM.

If you are a Beneficial Owner who wishes to attend the Court Meeting and/or the EGM personally, you should:

- (a) contact the Registered Owner directly to make the appropriate arrangements with the Registered Owner to enable you to attend and vote at the Court Meeting and/or the EGM and, for such purpose, the Registered Owner may appoint you as its proxy; or
- (b) arrange for some or all of the Shares registered in the name of the Registered Owner to be transferred and registered in your own name, if you wish to vote (in person or by proxy) at the Court Meeting and/or the EGM.

The appointment of a proxy by the Registered Owner at the Court Meeting and/or the EGM shall be in accordance with all relevant provisions in the articles of association of the Company.

In the case of the appointment of a proxy by the Registered Owner, the relevant forms of proxy shall be completed and signed by the Registered Owner and shall be lodged in the manner and no later than the latest time for lodging the relevant forms of proxy as more particularly set out in this Scheme Document.

The completion and return of a form of proxy for the Court Meeting and/or the EGM will not preclude the Registered Owner from attending and voting in person at the relevant meeting or any adjournment thereof should he/she/it so wish, and, in such event, the relevant form of proxy will be revoked by operation of law.

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## ACTIONS TO BE TAKEN

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Instructions to and/or arrangements with the Registered Owner should be given or made in advance of the relevant latest time for the lodgement of the forms of proxy in respect of the Court Meeting and/or the EGM in order to provide the Registered Owner with sufficient time to complete his/her/its forms of proxy accurately and to submit them by the deadline. To the extent that any Registered Owner requires instructions from or arrangements to be made with any Beneficial Owner at a particular date or time in advance of the relevant latest time for the lodgement of the forms of proxy in respect of the Court Meeting and the EGM, such Beneficial Owner should comply with the requirements of such Registered Owner.

If you are a Beneficial Owner whose Shares are deposited in CCASS and registered under the name of HKSCC Nominees, you must, unless you are an Investor Participant, contact your broker, custodian, nominee or other relevant person who is, or has, in turn, deposited such Shares with, a CCASS participant regarding voting instructions to be given to such persons, or alternatively arrange for some or all of such Shares to be withdrawn from CCASS and transferred and registered in your own name prior to the Meeting Record Date, if you wish to vote (in person or by proxy) at the Court Meeting and/or the EGM. The procedure for voting in respect of the Scheme by the Investor Participants and the Other CCASS Participants with respect to Shares registered under the name of HKSCC Nominees shall be in accordance with the *“General Rules of CCASS”* and the *“CCASS Operational Procedures”* in effect from time to time.

Only Disinterested Shareholders whose Shares are registered in their own names in the register of members of the Company on the Meeting Record Date will be counted as members of the Company for the purpose of calculating whether or not a majority in number of members of the Company have approved the Scheme at the Court Meeting under Section 86 of the Companies Law. In accordance with the direction from the Grand Court, for the purpose of calculating whether or not a majority in number of members of the Company have approved the Scheme at the Court Meeting under section 86 of the Companies Law, HKSCC Nominees shall be permitted to vote once for and once against the Scheme in accordance with the instructions received by it from the Investor Participants and other CCASS Participants. Thus, (i) if HKSCC Nominees receives instructions to vote for the Scheme and instructions to vote against the Scheme, it shall vote once for and once against the Scheme in accordance with such instructions, and be counted as one Shareholder under the votes “for” the Scheme and as one Shareholder under the votes “against” the Scheme; (ii) if HKSCC Nominees only receives instructions to vote for the Scheme, it shall vote once for the Scheme in accordance with such instructions, and be counted as one Shareholder under the votes “for” the Scheme; and (iii) if HKSCC Nominees only receives instructions to vote against the Scheme, it shall vote once against the Scheme in accordance with such instructions, and be counted as one Shareholder under the votes “against” the Scheme. Beneficial Owners who wish to individually vote or be counted for such purposes should make arrangements to be registered as a member of the Company in their own name prior to the Meeting Record Date.

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## ACTIONS TO BE TAKEN

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### 3. EXERCISE YOUR RIGHT TO VOTE

IF YOU ARE A SHAREHOLDER OR A BENEFICIAL OWNER, YOU ARE STRONGLY URGED TO EXERCISE YOUR RIGHT TO VOTE OR GIVE INSTRUCTIONS TO THE RELEVANT REGISTERED OWNER TO VOTE IN PERSON OR BY PROXY AT THE COURT MEETING AND/OR AT THE EGM.

IF YOU WISH TO BE COUNTED INDIVIDUALLY IN THE CALCULATION OF THE "MAJORITY IN NUMBER" REQUIREMENT AT THE COURT MEETING, YOU SHOULD MAKE ARRANGEMENTS TO BECOME A REGISTERED OWNER OF SOME OR ALL OF YOUR SHARES. IF YOU KEEP ANY SHARES IN A SHARE LENDING PROGRAMME, YOU ARE STRONGLY URGED TO RECALL ANY OUTSTANDING SHARES ON LOAN TO AVOID MARKET PARTICIPANTS USING BORROWED STOCK TO VOTE.

IF YOU ARE A REGISTERED OWNER HOLDING SHARES ON BEHALF OF BENEFICIAL OWNERS, YOU SHOULD INFORM THE RELEVANT BENEFICIAL OWNERS ABOUT THE IMPORTANCE OF EXERCISING THEIR RIGHT TO VOTE. YOU SHOULD ALSO REMIND THE RELEVANT BENEFICIAL OWNERS THAT IF THEY WISH TO BE COUNTED INDIVIDUALLY IN THE CALCULATION OF THE "MAJORITY IN NUMBER" REQUIREMENT AT THE COURT MEETING, THEY SHOULD MAKE ARRANGEMENTS TO BECOME A REGISTERED OWNER OF SOME OR ALL OF THEIR SHARES.

IF YOU ARE IN ANY DOUBT AS TO THE ACTION TO BE TAKEN, YOU SHOULD CONSULT YOUR LICENSED SECURITIES DEALER OR REGISTERED INSTITUTION IN SECURITIES, BANK MANAGER, SOLICITOR, PROFESSIONAL ACCOUNTANT OR OTHER PROFESSIONAL ADVISER.

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## DEFINITIONS

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*In this Scheme Document, the following expressions have the meanings set out below, unless the context requires otherwise:*

“24 July Announcement”	the joint announcement dated 24 July 2020 issued by the Offeror and the Company in relation to the Proposal, pursuant to which it was announced that the Consortium Agreement and transactions contemplated thereunder had been approved by shareholders of Shenzhen Kaifa, the holding company of Kaifa, in accordance with the Rules Governing the Listing of Securities on the Shenzhen Stock Exchange on 24 July 2020
“Acquisition Financing”	Offeror Acquisition Financing and Optical Alpha Acquisition Financing
“acting in concert”	has the same meaning ascribed to it under the Takeovers Code, and “parties acting in concert” shall be construed accordingly
“Announcement Date”	the date of the Joint Announcement
“Applicable Laws”	with respect to any person, any laws, rules, regulations, guidelines, directives, treaties, judgments, decrees, orders or notices of any Relevant Authorities that is applicable to such person
“associate(s)”	has the same meaning ascribed to it under the Takeovers Code
“Authorisations”	all necessary authorisations, registrations, filings, rulings, consents, permissions, waivers, exemptions and approvals required from the Relevant Authorities or other third parties which are necessary for any members of the Group to carry on its business
“Beneficial Owner”	any beneficial owner of the Shares whose Shares are registered in the name of a Registered Owner other than himself or herself
“Board”	the Company’s board of Directors

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## DEFINITIONS

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“Business Day(s)”	a day on which the Stock Exchange is open for the transaction of business
“BVI”	the British Virgin Islands
“Cancellation Price”	the cancellation price of HK\$6.50 for every Scheme Share cancelled and extinguished pursuant to the Scheme payable by the Offeror to the Scheme Shareholders in the form of (i) the Cash Cancellation Consideration in respect of the Scheme Shareholders (other than the Mr. Na Related Shareholders and Kaifa); or (ii) the Mr. Na Related Shareholders Cancellation Consideration in respect of the Mr. Na Related Shareholders; or (iii) the Kaifa Cancellation Consideration in respect of Kaifa
“Cash Cancellation Consideration”	the consideration in cash payable by the Offeror to the Scheme Shareholders (other than the Mr. Na Related Shareholders and Kaifa), being the Cancellation Price for every Scheme Share held by the Scheme Shareholders (other than the Mr. Na Related Shareholders and Kaifa) cancelled and extinguished pursuant to the Scheme
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Participant”	a person admitted to participate in CCASS as a participant, including an Investor Participant
“CICC”	China International Capital Corporation Hong Kong Securities Limited, a registered institution under the SFO to carry out Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 5 (advising on futures contracts) and Type 6 (advising on corporate finance) regulated activities under the SFO, the financial adviser to the Offeror in relation to the Proposal
“CICC group”	CICC and persons controlling, controlled by or under the same control as CICC
“CMB”	China Merchants Bank Co., Ltd., Hong Kong Branch

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## DEFINITIONS

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“Companies Law”	the Companies Law Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
“Company”	O-Net Technologies (Group) Limited, an exempted company incorporated in the Cayman Islands with limited liability whose Shares are listed on the Stock Exchange (stock code: 877)
“Condition(s)”	the conditions to the Scheme becoming effective as described in the section headed “3. <i>Conditions to the Proposal</i> ” in the Explanatory Statement
“Consortium Agreement”	the consortium agreement dated 7 July 2020 entered into amongst the Offeror, Mr. Na, the Mr. Na Related Shareholders, Optical Alpha, the Equity Investor, the Subscription Investor and Kaifa in connection with the Proposal
“Court Meeting”	a meeting of the Disinterested Shareholders convened at the direction of the Grand Court at 10:00 a.m. on Friday, 25 September 2020 at 24/F, Admiralty Centre I, 18 Harcourt Road, Admiralty, Hong Kong, at which the Scheme (with or without modification) will be voted upon, or any adjournment thereof
“Director(s)”	director(s) of the Company
“Disinterested Shareholders”	Shareholders other than the Offeror and the Offeror Concert Parties ((i) except for the holding of Shares by CICC group in the capacity of an exempt principal trader or exempt fund manager for the purposes of the Takeovers Code; and (ii) excluding (a) Shares held by the CICC group for and on behalf of its non-discretionary investment clients which the CICC group does not have control of the voting rights attached to the relevant Shares and/or (b) Shares held by the Guosen Securities Group for and on behalf of its non-discretionary investment clients which the Guosen Securities Group does not have control of the voting rights attached to the relevant Shares)

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## DEFINITIONS

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“Effective Date”	the date on which the Scheme, if approved and sanctioned by the Grand Court, becomes effective in accordance with its terms and the Companies Law, being the date on which a copy of the order of the Grand Court sanctioning the Scheme and confirming the reduction of issued share capital resulting from the cancellation and extinguishment of the Scheme Shares is delivered to the Registrar of Companies in the Cayman Islands for registration pursuant to Section 86(3) of the Companies Law, which is expected to be Thursday, 15 October 2020 (Cayman Islands time)
“EGM”	an extraordinary general meeting of the Company convened at 10:30 a.m. on Friday, 25 September 2020 (or as soon as practicable after the Court Meeting shall have concluded or been adjourned) at 24/F., Admiralty Centre I, 18 Harcourt Road, Admiralty, Hong Kong for the purposes of passing all necessary resolutions for, among other things, the implementation of the Scheme
“Equity Investor”	LVC Technology Legend Limited, an Offeror Concert Party, the descriptions of which are set out in the section headed “10. Information on the Offeror and Offeror Concert Parties — (e) Equity Investor” in the Explanatory Statement
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
“exempt fund manager(s)”	has the meaning ascribed to it in the Takeovers Code
“exempt principal trader(s)”	has the meaning ascribed to it in the Takeovers Code
“Explanatory Statement”	the explanatory statement in relation to the Scheme, the text of which is set out on pages 85 to 125 of this Scheme Document
“Grand Court”	the Grand Court of the Cayman Islands
“Group”	the Company and its subsidiaries
“Guosen Capital”	Guosen Capital Limited* (國信資本有限責任公司), a wholly-owned subsidiary of Guosen Securities

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## DEFINITIONS

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“Guosen Securities”	Guosen Securities Co., Ltd. (國信證券股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 002736)
“Guosen Securities Group”	Guosen Securities, its subsidiaries and entities of which Guosen Securities owns or controls 20% or more of their voting rights
“HC Capital”	HC Capital Limited, a company incorporated in Hong Kong with limited liability and is wholly-owned by Hsin Chong International Holdings, which is in turn held as to 79.1% by HSBC Trustee (HK) Limited as the executor of the will of the late Dr. Meou-tsen Geoffrey Yeh
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent committee of the Board formed to advise the Disinterested Shareholders in connection with the Proposal and the Scheme, and comprising all the independent non-executive Directors, namely Mr. Deng Xinping, Mr. Ong Chor Wei and Mr. Zhao Wei
“Independent Financial Adviser” or “Somerley”	Somerley Capital Limited, a corporation licensed to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser to the Independent Board Committee on the Proposal and the Scheme
“Interim Results Announcement”	the interim results announcement of the Company for the six months ended 30 June 2020, which was published on 4 August 2020
“Investor Participant”	a person admitted to participate in CCASS as an investor participant

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## DEFINITIONS

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“Joint Announcement”	the joint announcement dated 8 July 2020 issued by the Offeror and the Company in relation to the Proposal
“Kaifa”	Kaifa Technology (H.K) Limited, a company incorporated in Hong Kong with limited liability and is a wholly-owned subsidiary of Shenzhen Kaifa
“Kaifa Cancellation Consideration”	the consideration to be received by Kaifa for the cancellation and extinguishment of its 171,121,237 Scheme Shares under the Scheme, which, pursuant to the terms of the Consortium Agreement, consists of (i) cash (at the Cancellation Price) as consideration for the cancellation and extinguishment of 60,000,000 Scheme Shares out of the 171,121,237 Scheme Shares held by Kaifa; and (ii) the crediting of Kaifa’s unpaid Offeror Shares as fully paid at the Cancellation Price per Offeror Share as consideration for the cancellation and extinguishment of 111,121,237 Scheme Shares out of the 171,121,237 Scheme Shares held by Kaifa pursuant to the Scheme
“Last Trading Day”	3 July 2020, being the last full trading day in the Shares on the Stock Exchange immediately before the halting of trading in the Shares pending publication of the Joint Announcement
“Latest Practicable Date”	28 August 2020, being the latest practicable date prior to the date of this Scheme Document for the purpose of ascertaining certain information contained in this Scheme Document
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	28 February 2021 (or such later date as the Offeror and the Company may agree or, to the extent applicable, as the Grand Court on application of the Company may allow and in all cases, as permitted by the Executive)
“Mandarin Assets”	Mandarin Assets Limited, a business company incorporated in the BVI and wholly owned by Mr. Na

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## DEFINITIONS

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“Mandarin Assets Arrangement Part I”	the compensation to be provided by the Equity Investor to Mr. Na in accordance with the terms of the Consortium Agreement for the purpose of compensating him for the risks that he has undertaken in providing a personal guarantee to secure the Optical Alpha Acquisition Financing and the Offeror Acquisition Financing, details of which are set out in the section headed “4. Consortium Agreement” in the Explanatory Statement
“Mandarin Assets Arrangement Part II”	the compensation to be provided by the Subscription Investor to Mr. Na in accordance with the terms of the Consortium Agreement for the purpose of compensating him for the risks that he has undertaken in providing a personal guarantee to secure the Optical Alpha Acquisition Financing and the Offeror Acquisition Financing, details of which are set out in the section headed “4. Consortium Agreement” in the Explanatory Statement
“Meeting Record Date”	Friday, 25 September 2020, or such other date as shall have been announced to the Shareholders, being the record date for the purpose of determining the entitlement of Disinterested Shareholders to attend and vote at the Court Meeting and the entitlement of Shareholders to attend and vote at the EGM
“Mr. Na”	Mr. Na Qinglin, the chairman of the Company and an executive Director, and a director of each of the Offeror and Optical Alpha. Mr. Na is an Offeror Concert Party. Further information on Mr. Na is set out in the section headed “10. Information on the Offeror and Offeror Concert Parties — (c) Mr. Na Related Shareholders” in the Explanatory Statement
“Mr. Na Related Shareholders”	O-Net BVI, Mandarin Assets and O-Net SAPL
“Mr. Na Related Shareholders and Kaifa Irrevocable Undertakings”	the irrevocable undertakings given by the Mr. Na Related Shareholders and Kaifa pursuant to the Consortium Agreement, as set out in paragraphs (b), (c) and (d) in the section headed “4. Consortium Agreement” in the Explanatory Statement

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## DEFINITIONS

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“Mr. Na Related Shareholders Cancellation Consideration”	the consideration to be received by the Mr. Na Related Shareholders for the cancellation and extinguishment of their 287,710,833 Scheme Shares under the Scheme, which, pursuant to the terms of the Consortium Agreement, consists of the crediting of 287,710,833 unpaid Offeror Shares out of the 513,676,233 unpaid Offeror Shares held by Optical Alpha as fully paid at the Cancellation Price per Offeror Share and in turn, the crediting of the Mr. Na Related Shareholders’ unpaid Optical Alpha Shares as fully paid at the Cancellation Price per Optical Alpha Share
“offer period”	has the meaning ascribed to it in the Takeovers Code, which commenced on 8 July 2020 and will end on the Effective Date, which is expected to be Thursday, 15 October 2020 (Cayman Islands time), or the date on which the Scheme is withdrawn or lapses in accordance of its terms and the Takeovers Code (as the case may be)
“Offeror”	Optical Beta Limited, a business company incorporated under the laws of the BVI with limited liability, which is held as to 82.21% by Optical Alpha and 17.79% by Kaifa as at the Latest Practicable Date
“Offeror Acquisition Financing”	debt facilities with an aggregate amount of HK\$1.44 billion provided by CMB to the Offeror in relation to the Proposal, further details of which are set out in the section headed “9. Financial Resources” in the Explanatory Statement
“Offeror Consortium”	parties to the Consortium Agreement, which include the Offeror, Optical Alpha, Mr. Na, the Mr. Na Related Shareholders, the Equity Investor, the Subscription Investor and Kaifa
“Offeror Concert Parties”	parties acting in concert or presumed to be acting in concert with the Offeror (including Mandarin Assets, O-Net BVI, O-Net SAPL, Kaifa, HC Capital, CICC (except in the capacity of an exempt principal trader or exempt fund manager for the purposes of the Takeovers Code and excluding Shares held by the CICC group on behalf of non-discretionary investment clients) and Guosen Securities (for the avoidance of doubt, all the Shares held by the Guosen Securities Group as at the Latest Practicable Date are not owned by it but are held for and on behalf of its non-discretionary clients))

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## DEFINITIONS

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“Offeror Share(s)”	ordinary share(s) of US\$0.001 par value each in the Offeror
“Offeror Shareholder’s Loan Agreement”	the shareholder’s loan agreement dated 7 July 2020 entered into between the Offeror and Optical Alpha, the principal terms of which are described in the section headed “5. Agreements relating to Optical Alpha and the Offeror — Offeror — (B) Offeror Shareholder’s Loan Agreement” in the Explanatory Statement
“Offeror Subscription Agreement”	the subscription agreement dated 7 July 2020 entered into among Optical Alpha, Kaifa and the Offeror, further details of which are set out in the section headed “5. Agreements relating to Optical Alpha and the Offeror — Offeror — (A) Offeror Subscription Agreement” in the Explanatory Statement
“Offshore Subscription Agreement”	the subscription agreement dated 6 July 2020 entered into among Optical Alpha, the Mr. Na Related Shareholders and the Equity Investor, further details of which are set out in the section headed “5. Agreements relating to Optical Alpha and the Offeror — Optical Alpha — (A) Subscription Agreements — 1. Offshore Subscription Agreement” in the Explanatory Statement
“O-Net BVI”	O-Net Holdings (BVI) Limited, an Offeror Concert Party, the descriptions of which are set out in the section headed “10. Information on the Offeror and Offeror Concert Parties” in the Explanatory Statement
“O-Net SAPL”	O-Net Share Award Plan Limited, an Offeror Concert Party, the descriptions of which are set out in the section headed “10. Information on the Offeror and Offeror Concert Parties” in the Explanatory Statement
“Onshore Subscription Agreement”	the subscription agreement dated 6 July 2020 entered into among Optical Alpha, the Mr. Na Related Shareholders, the Equity Investor and the Subscription Investor, further details of which are set out in the section headed “5. Agreements relating to Optical Alpha and the Offeror — Optical Alpha — (A) Subscription Agreements — 2. Onshore Subscription Agreement” in the Explanatory Statement

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## DEFINITIONS

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“Optical Alpha”	Optical Alpha Limited, a business company incorporated under the laws of the BVI with limited liability, which is held as to 73.54% by the Mr. Na Related Shareholders (including 3.16% by Mandarin Assets, 56.90% by O-Net BVI and 13.48% by O-Net SAPL) and 26.46% by the Equity Investor as at the Latest Practicable Date
“Optical Alpha Acquisition Financing”	debt facilities with an aggregate amount of HK\$730 million provided by CMB to Optical Alpha in relation to the Proposal, further details of which are set out in the section headed “9. <i>Financial Resources</i> ” in the Explanatory Statement
“Optical Alpha Personal Guarantee”	the deed of personal guarantee dated 6 July 2020 entered into between Mr. Na and the Equity Investor in respect of the personal guarantee provided by Mr. Na in favour of the Equity Investor in connection with the Optical Alpha Shareholder’s Loan, the principal terms of which are described in the section headed “5. <i>Agreements relating to Optical Alpha and the Offeror — Optical Alpha — (C) Optical Alpha Shareholder’s Loan Agreement</i> ” in the Explanatory Statement
“Optical Alpha Shareholders’ Agreement”	the shareholders’ agreement dated 6 July 2020 entered into among the Mr. Na Related Shareholders, the Equity Investor and Optical Alpha to govern their relationship in respect of Optical Alpha, the principal terms of which are described in the section headed “5. <i>Agreements relating to Optical Alpha and the Offeror — Optical Alpha — (B) Optical Alpha Shareholders’ Agreement</i> ” in the Explanatory Statement
“Optical Alpha Shareholders’ Loan Agreement”	the shareholder’s loan agreement dated 6 July 2020 entered into between the Equity Investor and Optical Alpha, the principal terms of which are described in the section headed “5. <i>Agreements relating to Optical Alpha and the Offeror — Optical Alpha — (C) Optical Alpha Shareholder’s Loan Agreement</i> ” in the Explanatory Statement
“Optical Alpha Shares(s)”	ordinary share(s) of US\$0.001 par value each in Optical Alpha

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## DEFINITIONS

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“Option(s)”	the outstanding share option(s) granted under the Share Option Scheme, all of which, if not exercised by the expiry of the term of the Share Option Scheme on 8 April 2020, had lapsed on 9 April 2020
“Other CCASS Participant”	a broker, custodian, nominee or other relevant person who is, or has deposited Shares with, a CCASS participant
“PRC”	the People’s Republic of China, and for the purpose of this Scheme Document only, exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Proposal”	the proposed privatisation of the Company by the Offeror by way of the Scheme on the terms and subject to the Conditions as described in this Scheme Document
“Registered Owner”	any person (including without limitation a nominee, trustee, depositary or any other authorised custodian or third party) whose name is entered in the register of members of the Company as a holder of the Shares
“Relevant Authorities”	applicable governments or governmental bodies, regulatory bodies, or courts including but not limited to the SFC and the Stock Exchange
“Relevant Period”	the period commencing on 8 January 2020, being the date falling six months prior to 8 July 2020, being the commencement of the offer period, and ending on the Latest Practicable Date
“Restricted Share Award Scheme”	the restricted share award scheme adopted by the Company on 9 May 2014
“Scheme”	a scheme of arrangement between the Company and the Scheme Shareholders under Section 86 of the Companies Law (subject to the Conditions) involving the cancellation and extinguishment of all the Scheme Shares and the restoration of the number of issued Shares in the share capital of the Company to the amount immediately before the cancellation and extinguishment of the Scheme Shares

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## DEFINITIONS

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“Scheme Document”	this composite scheme document (which contains, among other things, further details of the Proposal), the accompanying proxy forms and notices of the Court Meeting and the EGM, despatched by the Offeror and the Company to all Shareholders as required by the Takeovers Code
“Scheme Record Date”	Thursday, 15 October 2020, being the Effective Date, or such other date as shall have been announced to the Shareholders, being the record date for the purpose of determining entitlements under the Scheme
“Scheme Share(s)”	Share(s) other than those held by the Offeror on the Scheme Record Date. As at the Latest Practicable Date, the Offeror does not legally and beneficially own, control or have direction over any Shares. Accordingly, all of the 834,028,240 Shares in issue as at the Latest Practicable Date will be subject to the Scheme and regarded as Scheme Shares
“Scheme Shareholder(s)”	holder(s) of Scheme Shares on the Scheme Record Date, which will comprise the Disinterested Shareholders, the Mr. Na Related Shareholders, HC Capital and Kaifa
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of HK\$0.01 par value each in the share capital of the Company
“Share Option Scheme”	the share option scheme adopted by the Company on 9 April 2010, which had been terminated upon the expiry of its term on 9 April 2020
“Share Registrar”	Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, being the Hong Kong branch share registrar and transfer office of the Company
“Shareholder(s)”	registered holder(s) of the Shares

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## DEFINITIONS

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“Shenzhen Kaifa”	Shenzhen Kaifa Technology Co., Ltd (深圳長城開發科技股份有限公司), a company incorporated in the PRC and listed on the Shenzhen Stock Exchange (stock code: 21)
“Shenzhen Songhe Zhengxingu LP”	Shenzhen Songhe Zhengxingu Entrepreneurship Investment Limited Partnership* (深圳市松禾正心谷創業投資合夥企業(有限合夥)), the descriptions of which are set out in the section headed “10. Information on the Offeror and Offeror Concert Parties — (f) Subscription Investor” in the Explanatory Statement
“Shenzhen Songhexin LP”	Shenzhen Songhexin Entrepreneurship Investment Limited Partnership* (深圳市松和信創業投資合夥企業(有限合夥)), the descriptions of which are set out in the section headed “10. Information on the Offeror and Offeror Concert Parties — (f) Subscription Investor” in the Explanatory Statement
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Investor”	Shenzhen Zhengxinhe Consultancy Company Limited* (深圳市正信禾諮詢有限責任公司), an Offeror Concert Party, the description and shareholding of which are set out in the section headed “10. Information on the Offeror and Offeror Concert Parties — (f) Subscription Investor” in the Explanatory Statement
“Subscription Investor’s Deposit”	a sum of RMB660 million (equivalent to approximately HK\$730 million) which had been deposited into the designated bank account pursuant to the Subscription Investor’s Irrevocable Undertakings and the terms of the Onshore Subscription Agreement. For details, please see the section headed “5. Agreements relating to Optical Alpha and the Offeror — Optical Alpha — (A) Subscription Agreements — 2. Onshore Subscription Agreement” in the Explanatory Statement
“Subscription Investor’s Irrevocable Undertakings”	the irrevocable undertakings given by the Subscription Investor pursuant to the Onshore Subscription Agreement, further details of which are set out in the section headed “5. Agreements relating to Optical Alpha and the Offeror — Optical Alpha — (A) Subscription Agreements — 2. Onshore Subscription Agreement” in the Explanatory Statement

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## DEFINITIONS

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“Takeovers Code”	Hong Kong Code on Takeovers and Mergers (as revised from time to time)
“US” or “United States”	United States of America, its territories and possessions, any state of the United States and the District of Columbia
“%”	per cent.

All references in this Scheme Document to times and dates are references to Hong Kong times and dates, except as otherwise specified and other than references to the expected date of the Court hearing of the petition for the sanction of the Scheme and the reduction of the number of issued Shares and the Effective Date, which are the relevant dates in Cayman Islands. For reference only, Cayman Islands time is 13 hours behind Hong Kong time as at the date of this Scheme Document.

English translation of company names in Chinese or another language or Chinese translation of company names in English which are marked with “\*” are for identification purpose only.

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## EXPECTED TIMETABLE

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The timetable set out below is indicative only and is subject to change. Any changes to the timetable will be jointly announced by the Offeror and the Company.

Unless otherwise specified, all times and dates refer to Hong Kong local times and dates.

### Hong Kong time

Date of despatch of this Scheme Document . . . . . Wednesday, 2 September 2020

Latest time for lodging transfers of Shares in order to become entitled to attend and vote at the Court Meeting and/or the EGM . . . . . 4:30 p.m. Monday, 21 September 2020

Register of members of the Company closed for determining the entitlements of Disinterested Shareholders to attend and vote at the Court Meeting, and for determining the entitlements of Shareholders to attend and vote at the EGM) . . . . . from Tuesday, 22 September 2020 to Friday, 25 September 2020 (both days inclusive)

Latest time for lodging forms of proxy in respect of:

- Court Meeting <sup>(Note 1)</sup> . . . . . 10:00 a.m. Wednesday, 23 September 2020
- EGM <sup>(Note 1)</sup> . . . . . 10:30 a.m. Wednesday, 23 September 2020

Meeting Record Date . . . . . Friday, 25 September 2020

Court Meeting <sup>(Note 1)</sup> . . . . . 10:00 a.m. Friday, 25 September 2020

EGM <sup>(Note 1)</sup> . . . . . 10:30 a.m. Friday, 25 September 2020  
(or as soon as practicable after the Court Meeting shall have concluded or been adjourned)

Announcement of the results of the Court Meeting and the EGM posted on the website of the Stock Exchange . . . . . no later than 7:00 p.m. on Friday, 25 September 2020

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## EXPECTED TIMETABLE

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Expected latest time for trading of Shares on the Stock Exchange <sup>(Note 2)</sup> .....	4:10 p.m. on Monday, 5 October 2020
Latest time for lodging transfers of Shares in order to qualify for entitlements under the Scheme .....	4:30 p.m. Wednesday, 7 October 2020
Register of members of the Company closed for determining entitlements under the Scheme <sup>(Note 3)</sup> .....	from Thursday, 8 October 2020 onwards
Court hearing of the petition for the sanction of the Scheme and confirmation of the reduction of the number of issued Shares .....	on Friday, 9 October 2020 (Cayman Islands time)
Announcement of (1) the results of the Court hearing for the petition for the sanction of the Scheme, (2) the expected Effective Date and (3) the expected date of withdrawal of listing of Shares on the Stock Exchange posted on the website of the Stock Exchange .....	At or before 8:30 a.m. on Wednesday, 14 October 2020
Scheme Record Date .....	Thursday, 15 October 2020
Effective Date <sup>(Note 4)</sup> .....	Thursday, 15 October 2020 (Cayman Islands time)
Announcement of (1) the Effective Date and (2) the withdrawal of listing of Shares on the Stock Exchange posted on the website of the Stock Exchange .....	Friday, 16 October 2020
Withdrawal of listing of Shares on the Stock Exchange becomes effective .....	4:00 p.m. on Monday, 19 October 2020
Cheques for the cash payment under the Scheme to be despatched <sup>(Note 5)</sup> .....	On or before Tuesday, 27 October 2020

Shareholders should note that the above timetable is subject to change. Further announcement(s) will be made in the event that there is any change.

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## EXPECTED TIMETABLE

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*Notes:*

1. The **pink** form of proxy in respect of the Court Meeting and the **white** form of proxy in respect of the EGM should be completed and signed in accordance with the instructions respectively printed thereon and should be lodged at the office of the Share Registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by the times and dates stated above. The **pink** form of proxy for use at the Court Meeting and the **white** form of proxy for use at the EGM should be lodged no later than the time and date stated above. In the case of the **pink** form of proxy in respect of the Court Meeting, it may also be handed to the Chairman of the Court Meeting (who will have absolute discretion on whether or not to accept it) at the Court Meeting if it is not so lodged. The **white** form of proxy in respect of the EGM will not be valid if it is not so lodged. The completion and return of a form of proxy for the Court Meeting and/or the EGM will not preclude a member from attending and voting in person at the relevant meeting or any adjournment thereof if he, she or it so wishes. In such event, the returned form of proxy will be revoked by operation of law.
2. If the resolution to be proposed at the Court Meeting and all the resolutions to be proposed at the EGM are passed in fulfilment of Conditions (a) and (b) as set out in the section headed "3. *Conditions to the Proposal*" in the Explanatory Statement in this Scheme Document, respectively, the expected latest time for trading of the Shares on the Stock Exchange is 4:10 p.m. on Monday, 5 October 2020 (or such other date and time as Shareholders may be notified by way of announcement), and trading in the Shares on the Stock Exchange will cease from then onwards, unless the Scheme is withdrawn or lapses in accordance with its terms and the Takeovers Code subsequently, in which event trading in the Shares on the Stock Exchange will resume after the date on which the Scheme is so withdrawn or lapses and further announcement(s) will be made to notify Shareholders and investors of the Company of the exact date and time by which trading of the Shares on the Stock Exchange will resume.

If the resolution to be proposed at the Court Meeting or if any of the resolutions to be proposed at the EGM is not passed in accordance with Conditions (a) or (b) as set out in the section headed "3. *Conditions to the Proposal*" in the Explanatory Statement in this Scheme Document, respectively, the Scheme and the Proposal will lapse and trading in the Shares on the Stock Exchange will not cease from 4:10 p.m. on Monday, 5 October 2020 onwards. Further announcement(s) will be made in this event.

3. The register of members of the Company will be closed during such period for the purpose of determining who are qualified for the entitlements under the Scheme.
4. The Scheme shall become effective upon all the Conditions set out in the section headed "3. *Conditions to the Proposal*" in the Explanatory Statement of this Scheme Document having been fulfilled or (to the extent permitted) waived (as the case maybe).
5. Cheques for entitlements of Scheme Shareholders will be despatched by ordinary post in postage pre-paid envelopes addressed to Scheme Shareholders at their respective addresses as appearing in the register of members of the Company as at the Scheme Record Date or, in the case of joint holders, at the address appearing in the register of members of the Company as at the Scheme Record Date of the joint holder whose name then stands first in the register of members of the Company in respect of the relevant joint holding as soon as possible but in any event within seven business days (as defined in the Takeovers Code) following the Effective Date. Cheques shall be posted at the risk of the addressees and none of the Offeror, the Company, CICC, the Independent Financial Adviser and the Share Registrar and their respective directors, employees, officers, agents, advisers, associates and affiliates and any other persons involved in the Proposal shall be responsible for any loss or delay in the despatch of the same.

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LETTER FROM THE BOARD

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**O-NET TECHNOLOGIES (GROUP) LIMITED**  
**昂納科技（集團）有限公司**  
*(Incorporated in the Cayman Islands with limited liability)*  
**(Stock Code: 877)**

*Executive Director*  
Mr. Na Qinglin

*Non-executive Directors*  
Mr. Chen Zhujiang  
Mr. Huang Bin  
Mr. Mo Shangyun

*Independent non-executive Directors*  
Mr. Deng Xinping  
Mr. Ong Chor Wei  
Mr. Zhao Wei

*Registered Office*  
Cricket Square  
Hutchins Drive P.O. Box 2681  
Grand Cayman KY1-1111  
Cayman Islands

*Headquarter and Principal Place  
of Business in the PRC*  
35 Cuijing Road  
Pingshan District  
Shenzhen China  
Postal Code: 518118

*Principal Place of Business  
in Hong Kong*  
Unit 1608  
West Tower, Shun Tak Centre  
168–200 Connaught Road Central  
Hong Kong

2 September 2020

*To the Shareholders*

Dear Sir or Madam,

**(1) PROPOSAL FOR THE PRIVATISATION OF  
O-NET TECHNOLOGIES (GROUP) LIMITED BY THE OFFEROR  
BY WAY OF A SCHEME OF ARRANGEMENT  
UNDER SECTION 86 OF THE COMPANIES LAW**

**(2) PROPOSED WITHDRAWAL OF LISTING OF  
O-NET TECHNOLOGIES (GROUP) LIMITED**

**1. INTRODUCTION**

Reference is made to the Joint Announcement and the announcement dated 14 July 2020 jointly issued by the Offeror and the Company in relation to the Proposal.

On 8 July 2020, the Offeror requested the Board to put forward to the Scheme Shareholders the Proposal for the privatisation of the Company by way of the Scheme, being a scheme of arrangement under Section 86 of the Companies Law.

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## LETTER FROM THE BOARD

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### 2. TERMS OF THE PROPOSAL

If the Proposal is approved and implemented:

- (a) the Scheme Shares held by the Scheme Shareholders (excluding the Mr. Na Related Shareholders and Kaifa) will be cancelled and extinguished on the Effective Date in exchange for the payment of the Cancellation Price of HK\$6.50 in cash for each Scheme Share;
- (b) the 287,710,833 Scheme Shares held by the Mr. Na Related Shareholders will be cancelled and extinguished on the Effective Date in exchange for the Mr. Na Related Shareholders Cancellation Consideration, which consists of the crediting of 287,710,833 unpaid Offeror Shares (representing 46.05% of the Offeror Shares in issue) out of the 513,676,233 unpaid Offeror Shares (representing 82.21% of the Offeror Shares in issue) held by Optical Alpha as fully paid at the Cancellation Price per Offeror Share and in turn, the crediting of the unpaid Optical Alpha Shares held by the Mr. Na Related Shareholders as fully paid at the Cancellation Price per Optical Alpha Share;
- (c) the 171,121,237 Scheme Shares held by Kaifa will be cancelled and extinguished on the Effective Date in exchange for the Kaifa Cancellation Consideration, pursuant to which (i) 60,000,000 Scheme Shares out of the 171,121,237 Scheme Shares held by Kaifa will be cancelled and extinguished in consideration for cash at the Cancellation Price; and (ii) 111,121,237 Scheme Shares out of the 171,121,237 Scheme Shares held by Kaifa will be cancelled and extinguished in consideration for the crediting of the unpaid Offeror Shares held by Kaifa in the Offeror (representing 17.79% of the Offeror Shares in issue) as fully paid at the Cancellation Price per Offeror Share;
- (d) pursuant to paragraphs (a) to (c) above, the issued share capital of the Company will be reduced by cancelling and extinguishing the Scheme Shares, and upon such reduction, the issued share capital of the Company will be increased to its former amount by the issuance at par to the Offeror, credited as fully paid, of the aggregate number of Shares as is equal to the number of Scheme Shares cancelled and extinguished on the Effective Date. The reserve created in the Company's books of account as a result of the capital reduction will be applied in paying up in full at par the new Shares so issued, credited as fully paid, to the Offeror. The Company will accordingly become a wholly-owned subsidiary of the Offeror on the Effective Date; and
- (e) the listing of the Shares on the Stock Exchange will be withdrawn with effect after the Effective Date.

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## LETTER FROM THE BOARD

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### Cancellation Price

Under the Scheme, the Cancellation Price will be in the amount of HK\$6.50 per Scheme Share payable by the Offeror to the Scheme Shareholders in the form of (i) the Cash Cancellation Consideration in respect of the Scheme Shareholders (excluding the Mr. Na Related Shareholders and Kaifa); or (ii) the Mr. Na Related Shareholders Cancellation Consideration in respect of the Mr. Na Related Shareholders; or (iii) the Kaifa Cancellation Consideration in respect of Kaifa.

**The Cancellation Price will not be increased and the Offeror does not reserve the right to do so. Shareholders and potential investors of the Company should be aware that, following the making of this statement, the Offeror will not be allowed to increase the Cancellation Price.**

### Comparison of value

The Cancellation Price of HK\$6.50 in cash for every Scheme Share cancelled and extinguished under the Scheme represents:

- a premium of approximately 3.34% over the closing price of HK\$6.29 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- a premium of approximately 23.57% over the closing price of HK\$5.26 per Share as quoted on the Stock Exchange on the Last Trading Day;
- a premium of approximately 24.66% over the average closing price of approximately HK\$5.21 per Share based on the daily closing prices as quoted on the Stock Exchange for the 5 trading days up to and including the Last Trading Day;
- a premium of approximately 25.68% over the average closing price of approximately HK\$5.17 per Share based on the daily closing prices as quoted on the Stock Exchange for the 10 trading days up to and including the Last Trading Day;
- a premium of approximately 24.56% over the average closing price of approximately HK\$5.22 per Share based on the daily closing prices as quoted on the Stock Exchange for the 30 trading days up to and including the Last Trading Day;
- a premium of approximately 34.26% over the average closing price of approximately HK\$4.84 per Share based on the daily closing prices as quoted on the Stock Exchange for the 90 trading days up to and including the Last Trading Day;

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## LETTER FROM THE BOARD

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- a premium of approximately 43.18% over the average closing price of approximately HK\$4.54 per Share based on the daily closing prices as quoted on the Stock Exchange for the 180 trading days up to and including the Last Trading Day;
- a premium of approximately 19.27% over the 52-week closing high of HK\$5.45 per Share as quoted on the Stock Exchange; and
- a premium of approximately 128.85% over the audited net asset value per Share attributable to the Shareholders of approximately HK\$2.84 as at 31 December 2019.

The Cancellation Price has been determined on a commercial basis after taking into account, among other things, the prices of the Shares traded on the Stock Exchange, and with reference to the 2019 trading multiples of comparable companies selected based on the stock exchange on which their shares are traded (i.e. the Stock Exchange), the similarity between their products (e.g. splitters, couplers and optical transceivers) and the Group's and their stock liquidity profiles.

### 3. CONDITIONS TO THE PROPOSAL

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

- (a) the approval of the Scheme (by way of poll) by a majority in number of the Disinterested Shareholders representing not less than 75% in value of the Shares held by the Disinterested Shareholders, present and voting either in person or by proxy at the Court Meeting, provided that:
  - (i) the Scheme is approved (by way of poll) by the Disinterested Shareholders holding at least 75% of the votes attaching to the Shares held by the Disinterested Shareholders that are voted either in person or by proxy at the Court Meeting; and
  - (ii) the number of votes cast (by way of poll) by the Disinterested Shareholders present and voting either in person or by proxy at the Court Meeting against the resolution to approve the Scheme at the Court Meeting is not more than 10% of the votes attaching to all the Shares held by all the Disinterested Shareholders;
- (b) (i) the passing of a special resolution by a majority of not less than three-fourths of the votes cast by the Shareholders present and voting in person or by proxy at the EGM to approve and give effect to the reduction of the number of issued Shares in the share capital of the Company by cancelling and extinguishing the Scheme Shares; and (ii) the passing of an ordinary resolution by a simple majority of the votes cast by the Shareholders present and voting in person or by proxy at the EGM to immediately thereafter increase the issued Shares to the amount prior to the cancellation and extinguishment of the Scheme Shares and apply the reserve created as a result of the aforesaid cancellation and extinguishment of the Scheme Shares to pay up in full at par such number of new Shares as is equal to the number of Scheme Shares cancelled and extinguished as a result of the Scheme, credited as fully paid, for issuance to the Offeror;

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## LETTER FROM THE BOARD

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- (c) the Grand Court's sanction of the Scheme (with or without modifications) and, to the extent necessary, its confirmation of the reduction of the number of issued Shares in the share capital of the Company, and the delivery to the Registrar of Companies in the Cayman Islands of a copy of the order of the Grand Court for registration;
- (d) compliance, to the extent necessary, with the procedural requirements and conditions, if any, under Sections 15 and 16 of the Companies Law in relation to the reduction of the number of issued Shares in the share capital of the Company;
- (e) approval of the Consortium Agreement and transactions contemplated thereunder by shareholders of Shenzhen Kaifa, the holding company of Kaifa, in accordance with the Rules Governing the Listing of Securities on the Shenzhen Stock Exchange having been obtained;
- (f) all necessary Authorisations which are material in the context of the Group taken as a whole and other registrations, filings, rulings, consents, opinions, permissions and approvals in connection with the Proposal having been obtained from, given by or made with (as the case may be) the Relevant Authorities, in the Cayman Islands, Hong Kong and any other relevant jurisdictions;
- (g) all necessary Authorisations, registrations, filings, rulings, consents, opinions, permissions and approvals in connection with the Proposal under sub-paragraph (f) above remaining in full force and effect without variation, and all necessary statutory or regulatory obligations in all relevant jurisdictions having been complied with, and no requirement having been imposed by any Relevant Authorities which is not expressly provided for, or is in addition to requirements expressly provided for, in relevant laws, rules, regulations or codes in connection with the Proposal or any matters, documents (including circulars) or things relating thereto and which is material and adverse in the context of the Proposal or the Group taken as a whole, in each aforesaid case up to and at the time when the Scheme becomes effective; and
- (h) all necessary consents which may be required for the implementation of the Proposal and the Scheme under any existing contractual obligations of the Company being obtained or waived by the relevant party(ies), where any failure to obtain such consent or waiver would have a material adverse effect on the business of the Group.

With reference to Condition (e), the Consortium Agreement and transactions contemplated thereunder had been approved by shareholders of Shenzhen Kaifa, the holding company of Kaifa, in accordance with the Rules Governing the Listing of Securities on the Shenzhen Stock Exchange on 24 July 2020. Accordingly, Condition (e) had been satisfied as at the Latest Practicable Date. For details, please refer to the 24 July 2020 Announcement.

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## LETTER FROM THE BOARD

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With reference to Conditions (f), (g) and (h), as at the Latest Practicable Date, the Offeror and the Company are not aware of any requirement for such Authorisations, registrations, filings, rulings, consents, opinions, permissions and approvals other than those set out in Conditions (a) to (e).

The Offeror reserves the right to waive Conditions (f), (g) and (h) either in whole or in part, either generally or in respect of any particular matter. Conditions (a), (b), (c), (d) and (e) cannot be waived in any event. The Company has no right to waive any of the Conditions. All of the above Conditions will have to be fulfilled or waived, as applicable, on or before the Long Stop Date, failing which the Proposal and the Scheme will lapse.

Pursuant to Note 2 to Rule 30.1 of the Takeovers Code, the Offeror may only invoke any or all of the Conditions as a basis for not proceeding with the Scheme if the circumstances which give rise to the right to invoke any such Condition are of material significance to the Offeror in the context of the Proposal.

If the Conditions are satisfied or validly waived (as applicable), the Scheme will be binding on all Scheme Shareholders, irrespective of whether or not they attended or voted at the Court Meeting or the EGM. An announcement will be made by the Company and the Offeror in relation to the results of the Court Meeting and the EGM no later than 7:00 p.m. on Friday, 25 September 2020 and, if all the resolutions are passed at those meetings, further announcements will be made in relation to, among other things, the results of the hearing of the petition for the sanction of the Scheme by the Court, the Effective Date and the date of withdrawal of listing of Shares from the Stock Exchange in accordance with the requirements of the Takeovers Code and the Listing Rules.

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

#### 4. CONSORTIUM AGREEMENT

On 7 July 2020, the Offeror, Optical Alpha, Mr. Na, the Mr. Na Related Shareholders, the Equity Investor, the Subscription Investor and Kaifa entered into the Consortium Agreement and formed the Offeror Consortium for the purpose of the Proposal. Pursuant to the Consortium Agreement, among other things:

- (a) they agreed that all material actions and decisions relating to the Proposal will be jointly led and made by the Mr. Na Related Shareholders;
- (b) each of the Mr. Na Related Shareholders has irrevocably undertaken and agreed to the cancellation and extinguishment of their respective Scheme Shares (which in aggregate consist of 287,710,833 Scheme Shares) under the Scheme in consideration for the Mr. Na Related Shareholders Cancellation Consideration;

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## LETTER FROM THE BOARD

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- (c) Kaifa has irrevocably undertaken and agreed to the cancellation and extinguishment of its 171,121,237 Scheme Shares under the Scheme in consideration for the Kaifa Cancellation Consideration;
- (d) each of the Mr. Na Related Shareholders and Kaifa has irrevocably undertaken and agreed that:
  - (i) to the extent permitted under applicable laws, it will vote in favour of the resolutions to be proposed at the EGM to approve and give effect to the reduction of the number of issued Shares in the share capital of the Company and any resolutions proposed at the EGM to assist the implementation of the Scheme or are necessary for the Scheme to become effective, and to otherwise support the Scheme and provide such undertakings to the Grand Court as are appropriate and necessary for the Scheme to be approved;
  - (ii) it shall not, during the term of the Consortium Agreement and other than in connection with the Proposal: (1) sell, transfer, charge, encumber, create or grant any option or lien over or otherwise dispose of (or permit any such action to occur in respect of) all or any of its Shares or any interest therein; (2) accept or give any undertaking to accept any other offer, merger or other business combination in respect of the Shares; or (3) purchase or acquire any Shares other than with the consent of the Offeror; and
  - (iii) it shall not, except to the extent required under the Takeovers Code, the Listing Rules or any applicable laws, take any action which may have the effect of delaying, disrupting or otherwise causing the Scheme not to become effective at the earliest practicable time or at all, or which is or may be prejudicial to the success of the Scheme;
- (e) to compensate Mr. Na for the risks that he has undertaken in providing a personal guarantee to secure the Optical Alpha Acquisition Financing and the Offeror Acquisition Financing, (i) the Equity Investor agreed that 7,437,813 unpaid Optical Alpha Shares subscribed by the Equity Investor at the Cancellation Price under the Offshore Subscription Agreement (representing 1.85% of the enlarged issued share capital of Optical Alpha upon completion of the Offshore Subscription Agreement and as at the Latest Practicable Date, and 1.45% of the enlarged issued share capital of Optical Alpha upon completion of the Onshore Subscription Agreement) shall be issued by Optical Alpha to Mandarin Assets, a company wholly-owned by Mr. Na, in its stead (i.e. the Mandarin Assets Arrangement Part I); and (ii) the Subscription Investor agreed that 7,349,467 Optical Alpha Shares subscribed by the Subscription Investor at the Cancellation Price under the Onshore Subscription Agreement (representing 1.43% of the enlarged issued share capital of Optical Alpha upon completion of the Onshore Subscription Agreement) shall be issued by Optical Alpha to Mandarin Assets in its stead (i.e. the Mandarin Assets Arrangement Part II).

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## LETTER FROM THE BOARD

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The Mandarin Assets Arrangement Part I had been completed and 7,437,813 unpaid Optical Alpha Shares subscribed by the Equity Investor at the Cancellation Price had been issued to Mandarin Assets. These 7,437,813 unpaid Optical Alpha Shares issued to Mandarin Assets are currently expected to be credited as fully paid upon payment of the subscription price by the Equity Investor in respect of such Optical Alpha Shares in accordance with the terms of the Offshore Subscription Agreement.

The Mandarin Assets Arrangement Part II is expected to be completed at the same time as the completion of the Onshore Subscription Agreement.

For the avoidance of doubt, none of the 7,437,813 Optical Alpha Shares issued to Mandarin Assets pursuant to the Mandarin Assets Arrangement Part I and the 7,349,467 Optical Alpha Shares to be issued to Mandarin Assets pursuant to the Mandarin Assets Arrangement Part II form part of the unpaid Optical Alpha Shares held by Mandarin Assets which are intended to be credited as fully paid pursuant to the Mr. Na Related Shareholders Cancellation Consideration.

The Consortium Agreement shall terminate in accordance with its terms upon the earlier of, among others:

- (i) the Conditions not having been fulfilled or waived (as the case may be) by the Long Stop Date;
- (ii) withdrawal or lapse of the Scheme in accordance with the Takeovers Code;
- (iii) the date on which the consideration payable by the Offeror in respect of the Scheme is settled in full in accordance with the Scheme Document; or
- (iv) expiry of the exclusivity period of the Consortium Agreement or such other date as the relevant parties to the Consortium Agreement otherwise agree in writing. The exclusivity period of the Consortium Agreement has commenced on the date of the Consortium Agreement (i.e. 7 July 2020) and will end on the earlier of (i) the date which is 18 months after the date of the Consortium Agreement, which may be extended as agreed by all parties to the Consortium Agreement in writing; (ii) the termination of the Consortium Agreement pursuant to the terms thereof; (iii) the completion of the Proposal (being the date on which the Cancellation Consideration having been settled in full in accordance with the Scheme Document); and (iv) six months after the date of the Consortium Agreement if the announcement to be published pursuant to Rule 3.5 of the Takeovers Code in respect of the Proposal is not made within six months following the date of the Consortium Agreement.

### **5. AGREEMENTS RELATING TO OPTICAL ALPHA AND THE OFFEROR**

Optical Alpha and the Offeror are investment vehicles through which members of the Offeror Consortium intend to hold their respective investments in the Group after completion of the Proposal, and were formed for the purpose of implementing the Proposal.

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## LETTER FROM THE BOARD

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As the Mr. Na Related Shareholders, Kaifa, the Equity Investor and the Subscription Investor intended to finance the Proposal through making equity investments (whether by way of cash or in-kind contributions) in Optical Alpha and the Offeror, (i) Optical Alpha, the Mr. Na Related Shareholders and the Equity Investor entered into the Offshore Subscription Agreement on 6 July 2020 for the subscriptions of Optical Alpha Shares by the Mr. Na Related Shareholders and the Equity Investor; (ii) Optical Alpha, the Mr. Na Related Shareholders, the Equity Investor and the Subscription Investor entered into the Onshore Subscription Agreement on 6 July 2020 for the subscription of Optical Alpha Shares by the Subscription Investor; and (iii) the Offeror, Optical Alpha and Kaifa entered into the Offeror Subscription Agreement on 7 July 2020 for the subscriptions of Offeror Shares by Optical Alpha and Kaifa.

The Offshore Subscription Agreement had been completed, pursuant to which unpaid Optical Alpha Shares had been issued to the Mr. Na Related Shareholders and the Equity Investor, which are intended to be credited as fully paid (i) (in respect of the Mr. Na Related Shareholders) pursuant to the Mr. Na Related Shareholders Cancellation Consideration upon the Scheme becoming effective; and (ii) (in respect of the Equity Investor) upon settlement of the relevant subscription price in cash by the Equity Investor (which is intended to be funded by an irrevocable standby letter of credit issued by Silicon Valley Bank made available to Optical Alpha as the beneficiary, further details of which are set out in the section headed “11. Financial Resources” below) no later than the Business Day immediately following the date on which the Scheme is sanctioned (with or without modifications) by the Grand Court (or such other date as agreed between the Equity Investor and Optical Alpha). Upon completion of the Offshore Subscription Agreement, Optical Alpha had become owned as to approximately 3.16% by Mandarin Assets, 56.90% by O-Net BVI, 13.48% by O-Net SAPL and 26.46% by the Equity Investor. To govern their relationship in respect of Optical Alpha, the Mr. Na Related Shareholders and the Equity Investor (being the existing shareholders of Optical Alpha) entered into the Optical Alpha Shareholders’ Agreement with Optical Alpha on 6 July 2020.

Upon completion of the Onshore Subscription Agreement, it is expected that Optical Alpha will be owned as to approximately 3.90% by Mandarin Assets, 44.46% by O-Net BVI, 10.53% by O-Net SAPL, 20.68% by the Equity Investor and 20.43% by the Subscription Investor. Completion of the Onshore Subscription Agreement is subject to the fulfilment or waiver of its conditions precedent, which include, among others, obtaining of necessary approvals for the subscription of Optical Alpha Shares by the Subscription Investor, including but not limited to those in relation to overseas direct investment by the Subscription Investor (a company established in the PRC) in Optical Alpha (a business company incorporated in the BVI). It is currently expected that the Onshore Subscription Agreement may or may not complete by the Effective Date, depending on the progress of obtaining of such necessary approvals by the Subscription Investor. In light of the uncertainty about the timing by which the Onshore Subscription Agreement could be completed, the Subscription Investor agreed to first provide the Subscription Investor’s Deposit, being a deposit in the amount of RMB660 million to be placed in an account designated by Optical Alpha, for the purpose of satisfying one of the conditions precedent for the drawdowns of the Offeror Acquisition Financing and the Optical Alpha Acquisition Financing. To ensure that the Subscription Investor’s Deposit will be maintained at the designated account for the purpose of the drawdowns of the Offeror

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## LETTER FROM THE BOARD

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Acquisition Financing and the Optical Alpha Acquisition Financing to finance the payment of the Cancellation Consideration by the Offeror upon the Scheme becoming effective, the Subscription Investor's withdrawal of the Subscription Investor's Deposit from the designated account prior to the drawdown of the Offeror Acquisition Financing and the Optical Alpha Acquisition Financing is subject to, among others, the authorisation from CICC (as financial adviser to the Offeror) to the bank at which the designated account is maintained. In addition, the Subscription Investor has irrevocably and unconditionally undertaken to Optical Alpha not to withdraw the Subscription Investor's Deposit from the designated bank account during the agreed period under the Subscription Investor's Irrevocable Undertakings.

The Offeror Subscription Agreement had also been completed, pursuant to which unpaid Offeror Shares had been issued to Optical Alpha and Kaifa, which are intended to be credited as fully paid (i) (in respect of Optical Alpha) partly pursuant to the Mr. Na Related Shareholders Cancellation Consideration upon the Scheme becoming effective and partly upon settlement of the remaining subscription price in cash by Optical Alpha on the drawdown date of the Optical Alpha Acquisition Financing, currently anticipated to be within 2 Business Day after the Effective Date, (which is intended to be funded by (a) the subscription monies to be paid by the Equity Investor to Optical Alpha pursuant to the Offshore Subscription Agreement; and (b) proceeds from the Optical Alpha Acquisition Financing); and (ii) (in respect of Kaifa) pursuant to the Kaifa Cancellation Consideration upon the Scheme becoming effective. Upon completion of the Offeror Subscription Agreement, the Offeror had become owned as to approximately 82.21% by Optical Alpha and 17.79% by Kaifa.

For the shareholding structures of the Offeror and Optical Alpha upon (i) completion of the Proposal but before completion of the Onshore Subscription Agreement; and (ii) completion of both the Proposal and the Onshore Subscription Agreement, please refer to the relevant shareholding charts set out in the section headed "*6. Shareholding Structure*" in the Explanatory Statement on pages 98 to 103 of this Scheme Document.

Furthermore, for the payment of the fees and expenses incurred in relation to the Acquisition Financing, the Equity Investor provided a shareholder's loan in the amount of HK\$30 million to Optical Alpha under the Optical Alpha Shareholder's Loan Agreement dated 6 July 2020, and Optical Alpha provided a shareholder's loan in the amount of HK\$20 million to the Offeror under the Offeror Shareholder's Loan Agreement entered into on 7 July 2020.

Details of the aforementioned agreements entered into among members of the Offeror Consortium are set out below.

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## LETTER FROM THE BOARD

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### Optical Alpha

#### (A) *Subscription Agreements*

##### 1. Offshore Subscription Agreement

On 6 July 2020, Optical Alpha, the Mr. Na Related Shareholders and the Equity Investor entered into the Offshore Subscription Agreement, pursuant to which, among others:

- (a) the Mr. Na Related Shareholders have agreed to subscribe for 287,710,833 unpaid Optical Alpha Shares at the Cancellation Price (i.e. HK\$1,870,120,414.50 in aggregate). The total subscription price of such subscription shall be settled pursuant to the Mr. Na Related Shareholders Cancellation Consideration; and
- (b) the Equity Investor has agreed to subscribe for 113,657,708 unpaid Optical Alpha Shares at the Cancellation Price (i.e. HK\$738,775,102 in aggregate), among which 7,437,813 unpaid Optical Alpha Shares shall be issued to Mandarin Assets in its stead pursuant to the Mandarin Assets Arrangement Part I. These 7,437,813 unpaid Optical Alpha Shares shall be credited as fully paid upon the settlement of the subscription price by the Equity Investor no later than the Business Day immediately following the date on which the Scheme is sanctioned (with or without modifications) by the Grand Court (or such other date as agreed between the Equity Investor and Optical Alpha).

The subscriptions by the Mr. Na Related Shareholders and the Equity Investor for Optical Alpha Shares under the Offshore Subscription Agreement had been completed and Optical Alpha had become owned as to approximately 3.16% by Mandarin Assets, 56.90% by O-Net BVI, 13.48% by O-Net SAPL and 26.46% by the Equity Investor.

##### 2. Onshore Subscription Agreement

On 6 July 2020, Optical Alpha, the Mr. Na Related Shareholders, the Equity Investor and the Subscription Investor entered into the Onshore Subscription Agreement, pursuant to which, among others:

- (a) the Subscription Investor has agreed to subscribe for 112,307,692 Optical Alpha Shares at the Cancellation Price (i.e. approximately HK\$730 million, equivalent to RMB660 million in aggregate), among which 7,349,467 unpaid Optical Alpha Shares shall be issued to Mandarin Assets in its stead pursuant to the Mandarin Assets Arrangement Part II; and

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## LETTER FROM THE BOARD

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- (b) the Subscription Investor has given the Subscription Investor's Irrevocable Undertakings, pursuant to which it has irrevocably and unconditionally undertaken to Optical Alpha that a sum of RMB660 million (corresponding to the agreed subscription price in paragraphs (a) above) will be deposited into a designated bank account upon signing of the Onshore Subscription Agreement and that such deposit shall not be withdrawn from the designated bank account until the earlier of (i) 31 March 2021 (or such later date as may be agreed between the Subscription Investor and Optical Alpha in writing); (ii) the date on which the Scheme is withdrawn or lapses in accordance of its terms and the Takeovers Code; (iii) the date on which the Onshore Subscription Agreement is terminated in accordance with its terms; or (iv) the date on which the Optical Alpha Acquisition Financing is terminated in accordance with the terms and conditions of the relevant facility agreement.

As at the Latest Practicable Date, the Subscription Investor's Deposit, being a sum of RMB660 million (equivalent to approximately HK\$730 million), had been deposited into the designated bank account pursuant to the Subscription Investor's Irrevocable Undertakings and the terms of the Onshore Subscription Agreement.

Upon completion of the Onshore Subscription Agreement, it is expected that Optical Alpha will be owned as to approximately 3.90% by Mandarin Assets, 44.46% by O-Net BVI, 10.53% by O-Net SAPL, 20.68% by the Equity Investor and 20.43% by the Subscription Investor. Completion of the Onshore Subscription Agreement is subject to its conditions precedent, including, among others, all necessary approvals from the relevant governmental, regulatory or other authorities, required for the subscription of Optical Alpha Shares by the Subscription Investor having been obtained. As at the Latest Practicable Date, the Onshore Subscription Agreement had not been completed. Depending on the progress of the obtaining of the abovementioned necessary approvals for the subscription of Optical Alpha Shares by the Subscription Investor, it is currently expected that the Onshore Subscription Agreement may complete prior to or after the Effective Date.

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## LETTER FROM THE BOARD

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(B) *Optical Alpha Shareholders' Agreement*

On 6 July 2020, Optical Alpha, the Mr. Na Related Shareholders and the Equity Investor entered into the Optical Alpha Shareholders' Agreement in respect of the governance of Optical Alpha, which is intended to take full effect upon the Scheme becoming effective. The principal terms of the Optical Alpha Shareholders' Agreement are set out as follows:

- (a) **Board composition:** The board of Optical Alpha shall comprise three directors. Each of Mandarin Assets, O-Net BVI and the Equity Investor shall have the right to appoint one director.
- (b) **Reserved matters:** The board of Optical Alpha shall be responsible for the overall management of Optical Alpha, subject to certain reserved matters which require the prior written consents of shareholders of Optical Alpha holding an aggregate of not less than 80% of the issued shares of Optical Alpha.
- (c) **Right of first refusal and tag along:** The parties shall have the right to transfer their shares in Optical Alpha subject to first refusal and tag-along rights.
- (d) **Pre-emptive rights:** Any new issues of shares of Optical Alpha shall be subject to a right of pre-emption in favour of the shareholders to Optical Alpha (pro rata to their respective proportionate shareholding of the voting shares).
- (e) **Liquidation:** If the Company fails to withdraw listing from the Main Board of the Stock Exchange on or before 1 January 2022 (or such other date as the shareholders to Optical Alpha may agree in writing), the shareholders may approve to wind up Optical Alpha pursuant to the articles of association and the laws of the BVI.

(C) *Optical Alpha Shareholder's Loan Agreement*

On 6 July 2020, Optical Alpha and the Equity Investor entered into the Optical Alpha Shareholder's Loan Agreement pursuant to which the Equity Investor agreed to grant a shareholder's loan in the principal amount of HK\$30 million to Optical Alpha for the purpose of payment of fees and expenses as may be incurred in connection with the Acquisition Financing. Mr. Na has entered into the Optical Alpha Personal Guarantee on the same date to guarantee the repayment of any amount payable by Optical Alpha under the Optical Alpha Shareholder's Loan Agreement.

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## LETTER FROM THE BOARD

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### Offeror

#### (A) Offeror Subscription Agreement

On 7 July 2020, Optical Alpha, Kaifa and the Offeror entered into the Offeror Subscription Agreement, pursuant to which, among others:

- (a) Optical Alpha has agreed to subscribe for 513,676,233 unpaid Offeror Shares at the Cancellation Price, among which (i) 287,710,833 unpaid Offeror Shares shall be credited as fully paid pursuant to the Mr. Na Related Shareholders Cancellation Consideration; and (ii) the remaining 225,965,400 unpaid Offeror Shares shall be credited as fully paid upon the settlement of the remaining subscription price by Optical Alpha on the drawdown date of the Optical Alpha Acquisition Financing, currently anticipated to be within 2 Business Day after the Effective Date (or such other date as agreed between the Optical Alpha and the Offeror). Optical Alpha and the Offeror has further agreed that, subject to the Scheme becoming effective, HK\$20 million out of the subscription price under (ii) above shall be set off by the shareholder's loan provided by Optical Alpha to the Offeror pursuant to the Offeror Shareholder's Loan Agreement; and
- (b) Kaifa has agreed to subscribe for 111,121,237 unpaid Offeror Shares at the Cancellation Price, which shall be credited as fully paid pursuant to the Kaifa Cancellation Consideration.

The subscriptions by Optical Alpha and Kaifa for Offeror Shares under the Offeror Subscription Agreement had been completed and the Offeror had become owned as to approximately 82.21% by Optical Alpha and 17.79% by Kaifa.

#### (B) Offeror Shareholder's Loan Agreement

On 7 July 2020, Offeror and Optical Alpha entered into the Offeror Shareholder's Loan Agreement pursuant to which Optical Alpha agreed to grant a shareholder's loan in the principal amount of HK\$20 million to the Offeror for the purpose of payment of fees and expenses as may be incurred by the Offeror in relation to the Offeror Acquisition Financing. The Offeror and Optical Alpha have further agreed that, subject to the Scheme becoming effective, the shareholder's loan made pursuant to the Offeror Shareholder's Loan Agreement shall be partially set off by HK\$20 million out of the total subscription price payable by Optical Alpha for approximately 3,076,923 Offeror Shares under the Offeror Subscription Agreement.

## 6. SHAREHOLDING STRUCTURE

As at the Latest Practicable Date:

- (a) the issued share capital of the Company comprises 834,028,240 Shares, all of which will be subject to the Scheme and regarded as Scheme Shares;

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## LETTER FROM THE BOARD

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- (b) the Share Option Scheme had been terminated upon the expiry of its term on 9 April 2020, and all Options granted thereunder but not exercised by 8 April 2020 had lapsed on 9 April 2020. Accordingly, no Options are in issue as at the Latest Practicable Date. As disclosed in the Joint Announcement, as the Company had no intention to adopt a new share option scheme from the Announcement Date up to the Effective Date, it is also expected that no Options will be in issue during the period from the Announcement Date and up to the Effective Date (both dates inclusive);
- (c) the Company has no relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) other than its issued share capital comprising 834,028,240 Shares;
- (d) the Offeror does not legally or beneficially own, control or have direction over any Shares;
- (e) the Mr. Na Related Shareholders legally or beneficially own, control or have direction over 287,710,833 Shares, representing approximately 34.50% of the issued Shares, of which:
  - (i) 5,232,000 Shares, or 0.63% of the issued Shares, are held by Mandarin Assets (which is wholly owned by Mr. Na);
  - (ii) 228,373,383 Shares, or 27.38% of the issued Shares, are held by O-Net BVI (which Mr. Na has control over more than 30% of its voting rights); and
  - (iii) 54,105,450 Shares, or 6.49% of the issued Shares, are held by O-Net SAPL (which is wholly owned by O-Net BVI) as trustee on trust for the selected grantees under the Restricted Share Award Scheme. For details of the arrangement in relation to these Shares, please see Note 3 to the shareholding table below;
- (f) Kaifa legally or beneficially owns, controls or has direction over 171,121,237 Shares, representing approximately 20.52% of the issued Shares;
- (g) HC Capital held 2,788,000 Shares, representing 0.33% of the Shares in issue. Since, as at the Latest Practicable Date, HC Capital held more than 20% of the total voting rights of O-Net BVI, which in turn held 56.90% of the Optical Alpha Shares in issue, and Optical Alpha held 82.21% of the Offeror Shares in issue, HC Capital is presumed to be acting in concert with the Offeror by virtue of class (1) of the definition of “acting in concert” in the Takeovers Code;
- (h) the Equity Investor does not legally or beneficially own, control or have direction over any Shares;

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## LETTER FROM THE BOARD

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- (i) the Subscription Investor does not legally or beneficially own, control or have direction over any Shares;
- (j) members of the Guosen Securities Group, being Offeror Concert Parties by virtue of Guosen Capital's investment in the Subscription Investor through Shenzhen Songhexin LP and Shenzhen Songhe Zhengxingu LP, held 524,000 Shares, representing approximately 0.06% of the issued Shares. Based on Guosen Securities' confirmation, (i) all these 524,000 Shares held by the Guosen Securities Group are not its proprietary interests; (ii) the Guosen Securities Group does not have any control over these 524,000 Shares (including the voting rights attaching thereto); and (iii) to the extent these 524,000 Shares were acquired during the Relevant Period, they were acquired at the sole instruction of non-discretionary investment clients (who are not the Offeror or any of the Offeror Concert Parties) with such clients' own funds. None of such client's ultimate beneficial owners are part of the Guosen Securities Group nor the Offeror nor any of the Offeror Concert Parties. As such, all the Shares held by the Guosen Securities Group are considered to be Shares held by Disinterested Shareholders;
- (k) the Disinterested Shareholders held 372,408,170 Shares, representing approximately 44.65% of the issued Shares;
- (l) save as disclosed above, the Offeror and the Offeror Concert Parties do not hold or have control or direction over any other Shares or any options, warrants, derivatives or securities convertible into Shares or other derivatives in respect of securities in the Company;
- (m) neither the Offeror nor the Offeror Concert Parties have entered into any outstanding derivative in respect of the securities in the Company; and
- (n) neither the Offeror nor the Offeror Concert Parties have borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company.

The shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) upon completion of the Proposal but before completion of the Onshore Subscription Agreement (on the assumption that there is no other change in the shareholding structure of the Company before completion of the Proposal); and (iii) upon completion of the Proposal and the Onshore Subscription Agreement (on the assumption that there is no other change in the shareholding structure of the Company before completion of the Proposal) is set out in the section headed "6. Shareholding Structure of the Company" in the Explanatory Statement on pages 98 to 103 of this Scheme Document.

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## LETTER FROM THE BOARD

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### 7. REASONS FOR AND BENEFITS OF THE PROPOSAL

You are urged to read carefully the section headed “7. *Reasons for and benefits of the Proposal*” in the Explanatory Statement on pages 104 of this Scheme Document.

### 8. THE OFFEROR’S INTENTIONS IN RELATION TO THE GROUP

You are urged to read carefully the section headed “8. *The Offeror’s intentions in relation to the Group*” in the Explanatory Statement on page 104 of this Scheme Document.

The Board is pleased to note that:

- (a) it is the intention of the Offeror that the Group will continue to carry on its current business, which principally comprises the design, manufacturing and sale of optical networking products for the high-speed telecommunications and data communications systems as well as machine vision systems and sensors for smart manufacturing market;
- (b) the Offeror does not intend to introduce any major changes to the business of the Group (including any redeployment of fixed assets of the Group); and
- (c) the Offeror does not intend to make any significant changes to the continued employment of the employees of the Group as a result of the implementation of the Proposal.

### 9. FINANCIAL ADVISERS AND INDEPENDENT BOARD COMMITTEE

The Offeror has appointed CICC as its financial adviser in connection with the Proposal.

An Independent Board Committee, which comprises all the independent non-executive Directors, namely Mr. Deng Xinping, Mr. Ong Chor Wei and Mr. Zhao Wei, has been established by the Board to advise the Disinterested Shareholders in connection with the Proposal and the Scheme, and in particular as to (i) whether the Proposal and the Scheme are fair and reasonable; and (ii) voting in respect of the Scheme at the Court Meeting.

Pursuant to Rule 2.8 of the Takeovers Code, the Independent Board Committee comprises all non-executive Directors who have no direct or indirect interest in the Proposal.

Mr. Huang Bin, a non-executive Director, is a director of O-Net BVI and is interested in approximately 0.98% of the total number of issued shares of O-Net BVI (which is an Offeror Concert Party). Mr. Chen Zhujiang, a non-executive Director, is a director of both Kaifa and Shenzhen Kaifa, and is interested in approximately 0.010% of the issued shares of Shenzhen Kaifa. Mr. Mo Shangyun, a non-executive Director, is a senior management

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## LETTER FROM THE BOARD

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member of Shenzhen Kaifa and is interested in approximately 0.008% of the issued shares of Shenzhen Kaifa. Both Kaifa and Shenzhen Kaifa are Offeror Concert Parties. The Board is of the view that Mr. Huang Bin, Mr. Chen Zhujiang and Mr. Mo Shangyun are regarded as being interested in the Proposal for the purposes of Rule 2.8 of the Takeovers Code and are accordingly excluded from being members of the Independent Board Committee.

The full text of the letter from the Independent Board Committee is set out on pages 44 to 45 of this Scheme Document.

### 10. INDEPENDENT FINANCIAL ADVISER

The Company has, with the approval of the Independent Board Committee, appointed Somerley as the Independent Financial Adviser to advise the Independent Board Committee in connection with the Proposal and the Scheme. The full text of the letter from the Independent Financial Adviser is set out on pages 46 to 84 of this Scheme Document.

### 11. FINANCIAL RESOURCES

As at the Latest Practicable Date, (i) there are a total of 834,028,240 Shares in issue; and (ii) the Mr. Na Related Shareholders and Kaifa in aggregate directly or indirectly hold 458,832,070 Shares (representing approximately 55.01% of the total issued Shares). In accordance with the terms of the Consortium Agreement, the Mr. Na Related Shareholders and Kaifa have undertaken to the cancellation and extinguishment of their respective Shares under the Scheme in consideration for receiving the Mr. Na Related Shareholders Cancellation Consideration and the Kaifa Cancellation Consideration, respectively.

Taking into account that the Mr. Na Related Shareholders will not receive the Cancellation Price in cash for the 287,710,833 Scheme Shares held or controlled by the Mr. Na Related Shareholders, and Kaifa will not receive the Cancellation Price in cash for the 111,121,237 Scheme Shares out of 171,121,237 Scheme Shares held or controlled by Kaifa under the Scheme, the Scheme would involve making an offer to cancel and extinguish the remaining 60,000,000 Scheme Shares held by Kaifa and the 375,196,170 Scheme Shares held by the Scheme Shareholders (excluding the Mr. Na Related Shareholders and Kaifa) in exchange for the Cancellation Price in cash. Therefore, the maximum total amount of cash required to effect the Proposal is approximately HK\$2,828.78 million.

The Offeror intends to finance the cash requirement for the Proposal through:

- (i) a drawdown of debt facilities with an aggregate amount of HK\$1.44 billion provided by CMB (i.e. the Offeror Acquisition Financing), the Offeror's repayment obligation under which is guaranteed by Mr. Na and to be secured by, among others, account charges, share charges and equity charges over relevant subsidiaries and assets of the Company after the completion of the Proposal; and

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## LETTER FROM THE BOARD

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- (ii) a shareholder contribution from Optical Alpha to the Offeror funded by:
  - (a) a drawdown of debt facilities with an aggregate amount of HK\$730 million provided by CMB to Optical Alpha (i.e. the Optical Alpha Acquisition Financing), Optical Alpha's repayment obligation under which is guaranteed by Mr. Na and secured by among others, equitable mortgages over all Optical Alpha Shares and over Optical Alpha's entire shareholding interest in the Offeror; and
  - (b) an aggregate cash investment of HK\$738,775,102, being the subscription price payable by the Equity Investor under the Offshore Subscription Agreement, payable by the Equity Investor no later than the Business Day immediately following the date on which the Scheme is sanctioned (with or without modifications) by the Grand Court of the Cayman Islands (or such other date as agreed between the Equity Investor and the Offeror) funded by an irrevocable standby letter of credit issued by Silicon Valley Bank dated 6 July 2020 made available to Optical Alpha as the beneficiary in the aggregate principal amount of US\$96.00 million.

As at the Latest Practicable Date, a sum of RMB660 million (approximately equivalent to HK\$730 million) had been deposited into the designated bank account pursuant to the Subscription Investor's Irrevocable Undertakings and the terms of the Onshore Subscription Agreement for the purpose of satisfying one of the conditions precedent for the drawdowns of the Offeror Acquisition Financing and the Optical Alpha Acquisition Financing and the entire share capital of the Subscription Investor had been pledged to the designated bank.

CICC, the financial adviser to the Offeror, is satisfied that sufficient financial resources are available to the Offeror for discharging its obligations in respect of the full implementation of the Proposal in accordance with its terms.

### **12. INFORMATION ON THE OFFEROR AND THE COMPANY**

Your attention is drawn to the sections headed "10. Information on the Offeror and Offeror Concert Parties" and "11. Information on the Group" in the Explanatory Statement on pages 106 to 111 of this Scheme Document.

### **13. SCHEME SHARES, COURT MEETING AND EGM**

The Court Meeting will be held at 10:00 a.m. on Friday, 25 September 2020 at 24/F., Admiralty Centre I, 18 Harcourt Road, Admiralty, Hong Kong, and the EGM will be held at the same place and on the same date as the Court Meeting at 10:30 a.m. (or as soon as practicable after the Court Meeting shall have concluded or been adjourned). For the purpose of exercising your right to vote at the Court Meeting and/or the EGM, you are requested to read carefully the section headed "17. Scheme Shares, Court Meeting and EGM" in the Explanatory Statement on pages 114 to 117 of this Scheme Document, the section headed "21. Actions to be taken" in the Explanatory Statement on pages 118 to 121 of this Scheme Document, and the notices of the Court Meeting and the EGM on pages NCM-1 to NCM-4 and pages EGM-1 to EGM-4, respectively, of this Scheme Document.

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## LETTER FROM THE BOARD

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If the resolution to be proposed at the Court Meeting and all the resolutions to be proposed at the EGM are passed in fulfilment of Conditions (a) and (b) as set out in the section headed “3. Conditions to the Proposal” in the Explanatory Statement on pages 87 to 89 of this Scheme Document, respectively, the expected latest time for trading of the Shares on the Stock Exchange is 4:10 p.m. on Monday, 5 October 2020 (or such other date and time as Shareholders may be notified by way of announcement), and trading in the Shares on the Stock Exchange will cease from then onwards, unless the Scheme is withdrawn or lapses in accordance with its terms and the Takeovers Code subsequently, in which event trading in the Shares on the Stock Exchange will resume after the date on which the Scheme is so withdrawn or lapses and further announcement(s) will be made to notify Shareholders and investors of the Company of the exact date and time by which trading of the Shares on the Stock Exchange will resume.

If the resolution to be proposed at the Court Meeting or if any of the resolutions to be proposed at the EGM is not passed in accordance with Conditions (a) or (b) as set out in the section headed “3. Conditions to the Proposal” in the Explanatory Statement on pages 87 to 89 of this Scheme Document, respectively, the Scheme and the Proposal will lapse and trading in the Shares on the Stock Exchange will not cease from 4:10 p.m. on Monday, 5 October 2020 onwards. Further announcement(s) will be made in this event.

### **14. RECOMMENDATION**

Your attention is drawn to the recommendations of the Independent Financial Adviser to the Independent Board Committee in respect of the Proposal and the Scheme as set out in the “Letter from the Independent Financial Adviser” on pages 46 to 84 of this Scheme Document. Your attention is also drawn to the recommendation of the Independent Board Committee in respect of the Proposal and the Scheme as set out in the “Letter from the Independent Board Committee” on pages 44 to 45 of this Scheme Document.

### **15. IF THE SCHEME IS NOT APPROVED OR THE PROPOSAL LAPSES**

Subject to the requirements of the Takeovers Code, the Scheme will lapse if any of the Conditions has not been fulfilled or waived, as applicable, on or before the Long Stop Date. The listing of the Shares on the Stock Exchange will not be withdrawn if the Scheme does not become effective or the Proposal otherwise lapses. If the Proposal and the Scheme lapse, no change in the shareholding structure of the Company will result from the Proposal and the Scheme, and the shareholding structure of the Company as at the Latest Practicable Date as set out in the section headed “6. Shareholding Structure” in the Explanatory Statement on pages 98 to 103 of the Scheme Document shall remain unchanged (assuming that there is no other change in the shareholding structure of the Company from the Latest Practicable Date up to the date on which the Proposal and the Scheme lapse). Accordingly, the Company will continue to be able to maintain sufficient public float in its Shares under Rule 8.08 of the Listing Rules in the event that the Proposal and the Scheme lapse.

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## LETTER FROM THE BOARD

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If the Scheme is not approved or the Proposal otherwise lapses, there are restrictions under the Takeovers Code on making subsequent offers, to the effect that neither the Offeror nor any person who acted in concert with it in the course of the Proposal (nor any person who is subsequently acting in concert with any of them) may within 12 months from the date on which the Scheme is not approved or the Proposal otherwise lapses, announce an offer or possible offer for the Company, except with the consent of the Executive.

### **16. WITHDRAWAL OF LISTING OF THE SHARES**

Upon the Scheme becoming effective, all the Scheme Shares will be cancelled and extinguished (with the equivalent number of new Shares being simultaneously issued and credited as fully paid to the Offeror) and the share certificates for the Scheme Shares will thereafter cease to have effect as documents or evidence of title.

The Company will make an application for the listing of the Shares to be withdrawn from the Stock Exchange in accordance with Rule 6.15(2) of the Listing Rules, with effect after the Effective Date.

The Shareholders will be notified by way of an announcement of the dates of the last day for dealing in the Shares and the day on which the Scheme and the withdrawal of the listing of the Shares on the Stock Exchange will become effective.

### **17. REGISTRATION AND PAYMENT**

Your attention is drawn to the sections entitled “14. *Registration and Payment*” in the Explanatory Statement set out on pages 111 to 113 of this Scheme Document.

### **18. TAXATION AND INDEPENDENT ADVICE**

It is emphasised that none of the Offeror, the Company or CICC, nor any of their respective directors, officers or associates or any other person involved in the Proposal, accepts responsibility (other than in respect of themselves, if applicable) for any taxation effects on, or liabilities of, any persons as a result of their acceptance or rejection of the Proposal.

Accordingly, you are urged to read the section entitled “16. *Taxation and Independent Advice*” in the Explanatory Statement set out on page 114 of this Scheme Document and if you are in any doubt as to any aspect of this Scheme Document or as to the action to be taken, you are recommended to consult an appropriately qualified professional adviser.

### **19. OVERSEAS SCHEME SHAREHOLDERS**

If you are an overseas Scheme Shareholders, your attention is drawn to the section headed “15. *Overseas Shareholders*” in the Explanatory Statement on page 113 of this Scheme Document.

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## LETTER FROM THE BOARD

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### 20. FURTHER INFORMATION

You are urged to read carefully the letters from the Independent Board Committee and from the Independent Financial Adviser, as set out on pages 44 to 45, and pages 46 to 84 respectively of this Scheme Document, the Explanatory Statement as set out on pages 85 to 125 of this Scheme Document, the appendices to this Scheme Document, the terms of the Scheme as set out on pages S-1 to S-13 of this Scheme Document, the notice of the Court Meeting as set out on pages NCM-1 to NCM-4 of this Scheme Document and the notice of the EGM as set out on pages EGM-1 to EGM-4 of this Scheme Document. In addition, a **pink** form of proxy in respect of the Court Meeting and a **white** form of proxy in respect of the EGM are enclosed with this Scheme Document.

By the order of the Board  
**O-Net Technologies (Group) Limited**  
**Na Qinglin**  
*Chairman and Chief Executive Officer*



**O-NET TECHNOLOGIES (GROUP) LIMITED**

**昂納科技（集團）有限公司**

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

**(Stock Code: 877)**

2 September 2020

*To the Disinterested Shareholders*

Dear Sir or Madam,

**(1) PROPOSAL FOR THE PRIVATISATION OF  
O-NET TECHNOLOGIES (GROUP) LIMITED BY THE OFFEROR  
BY WAY OF A SCHEME OF ARRANGEMENT  
UNDER SECTION 86 OF THE COMPANIES LAW**

**(2) PROPOSED WITHDRAWAL OF LISTING OF  
O-NET TECHNOLOGIES (GROUP) LIMITED**

We refer to the Joint Announcement, the announcement dated 14 July 2020 jointly issued by the Offeror and the Company in relation to the Proposal and the scheme document dated 2 September 2020 jointly issued by the Offeror and the Company in relation to the Proposal (the “**Scheme Document**”), the latter of which this letter forms part. Terms defined in the Scheme Document shall have the same meanings in this letter unless the context otherwise requires.

We have been appointed by the Board as the Independent Board Committee to make a recommendation to the Disinterested Shareholders in respect of the Proposal and the Scheme, details of which are set out in the “*Letter from the Board*” and the “*Explanatory Statement*” of the Scheme Document.

Somerley, the Independent Financial Adviser, has been appointed with our approval, to advise us in connection with the Proposal and the Scheme. The details of its advice and the principal factors taken into consideration in arriving at its recommendations are set out in the “*Letter from the Independent Financial Adviser*” of the Scheme Document.

In the “*Letter from the Independent Financial Adviser*” of the Scheme Document, the Independent Financial Adviser states that it considers the terms of the Proposal and the Scheme are fair and reasonable as far as the Disinterested Shareholders are concerned, and advises the Independent Board Committee to recommend the Disinterested Shareholders to vote in favour of the relevant resolution(s) to be proposed at the Court Meeting and the EGM to approve and implement the Scheme.

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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The Independent Board Committee, having considered the terms of the Proposal and the Scheme, and having taken into account the advice of the Independent Financial Adviser, and in particular the factors, reasons and recommendations set out in its letter, considers that the terms of the Proposal and the Scheme are fair and reasonable as far as the Disinterested Shareholders are concerned. Accordingly, the Independent Board Committee recommends:

- (1) at the Court Meeting, the Disinterested Shareholders to vote in favour of the resolution to approve the Scheme; and
- (2) at the EGM, the Disinterested Shareholders to vote in favour of:
  - (i) the special resolution to approve the reduction of the issued share capital of the Company as a result of the cancellation of the Scheme Shares; and
  - (ii) an ordinary resolution to apply the reserve created by the cancellation of the Scheme Shares to simultaneously restore the issued share capital of the Company by the allotment and issue to the Offeror of such number of new Shares (credited as fully paid) as is equal to the number of the Scheme Shares cancelled.

The Independent Board Committee draws the attention of the Disinterested Shareholders to (i) the “Letter from the Board” set out in the Scheme Document; (ii) the “Letter from the Independent Financial Adviser”, which sets out the factors and reasons taken into account in arriving at its recommendations to the Independent Board Committee, set out in the Scheme Document; and (iii) the Explanatory Statement set out in the Scheme Document.

Yours faithfully,  
**the Independent Board Committee**

**Mr. Deng Xinping**  
*Independent*  
*Non-executive Director*

**Mr. Ong Chor Wei**  
*Independent*  
*Non-executive Director*

**Mr. Zhao Wei**  
*Independent*  
*Non-executive Director*

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*Set out below is the letter of advice from Somerley Capital Limited, the Independent Financial Adviser, to the Independent Board Committee regarding the Proposal and the Scheme for the purpose of incorporation in this Scheme Document.*



**SOMERLEY CAPITAL LIMITED**

20th Floor

China Building

29 Queen's Road Central

Hong Kong

2 September 2020

*To: the Independent Board Committee of O-Net Technologies (Group) Limited*

Dear Sirs,

**(1) PROPOSAL FOR THE PRIVATISATION OF  
O-NET TECHNOLOGIES (GROUP) LIMITED BY THE OFFEROR  
BY WAY OF A SCHEME OF ARRANGEMENT  
UNDER SECTION 86 OF THE COMPANIES LAW  
AND  
(2) PROPOSED WITHDRAWAL OF LISTING OF  
O-NET TECHNOLOGIES (GROUP) LIMITED**

**I. INTRODUCTION**

We refer to our appointment to advise the Independent Board Committee in connection with the Proposal and the Scheme. Details of the Proposal and the Scheme are contained in the Scheme Document dated 2 September 2020, of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Scheme Document unless the context otherwise requires.

On 8 July 2020, the Offeror and the Company jointly announced that the Offeror requested the Board to put forward to the Scheme Shareholders the Proposal for the privatisation of the Company by way of the Scheme, being a scheme of arrangement under section 86 of the Companies Law. If the Proposal is approved and implemented, among other things, (a) the Scheme Shares held by the Scheme Shareholders (excluding the Mr. Na Related Shareholders and Kaifa) will be cancelled and extinguished on the Effective Date in exchange for the payment of the Cancellation Price of HK\$6.50 in cash for each Scheme Share; and (b) the listing of the Shares on the Stock Exchange will be withdrawn with effect after the Effective Date.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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An Independent Board Committee, which comprises all the independent non-executive Directors, namely Mr. Deng Xinping, Mr. Ong Chor Wei and Mr. Zhao Wei, has been established by the Board to advise the Disinterested Shareholders in connection with the Proposal and the Scheme, and in particular as to (i) whether the Proposal and the Scheme are fair and reasonable; and (ii) voting in respect of the Scheme at the Court Meeting. Pursuant to Rule 2.8 of the Takeovers Code, the Independent Board Committee comprises all non-executive Directors who have no direct or indirect interest in the Proposal. Mr. Huang Bin, a non-executive Director, is a director of O-Net BVI and is interested in approximately 0.98% of the total number of issued shares of O-Net BVI (which is an Offeror Concert Party). Mr. Chen Zhujiang, a non-executive Director, is a director of both Kaifa and Shenzhen Kaifa, and is interested in approximately 0.010% of the issued shares of Shenzhen Kaifa. Mr. Mo Shangyun, a non-executive Director, is a senior management member of Shenzhen Kaifa and is interested in approximately 0.008% of the issued shares of Shenzhen Kaifa. Both Kaifa and Shenzhen Kaifa are Offeror Concert Parties. The Board is of the view that Mr. Huang Bin, Mr. Chen Zhujiang and Mr. Mo Shangyun are regarded as being interested in the Proposal for the purposes of Rule 2.8 of the Takeovers Code and are accordingly excluded from being members of the Independent Board Committee. The Independent Board Committee has approved our appointment as the Independent Financial Adviser to advise them as regards their recommendation on the Proposal and the Scheme.

We are not associated with the Company, the Offeror Consortium or any party acting, or presumed to be acting, in concert with any of them and, accordingly, are considered eligible to give independent advice on the Proposal and the Scheme. There has been no business relationship between the Company or its associated companies and us in the past two years. Apart from normal professional fees paid or payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company, the Offeror Consortium or any party acting, or presumed to be acting, in concert with any of them. We are not aware of any relationship or interest between us and the Company or other parties that would be reasonably considered to affect our independence to act as an independent financial adviser to the Independent Board Committee in respect of the Proposal and the Scheme.

In formulating our advice and recommendation, we have relied on the information and facts supplied, and the opinions expressed, by the Directors and management of the Group (the “**Management**”), which we have assumed to be true, accurate and complete in all material aspects at the Latest Practicable Date. We have also assumed that all representations contained or referred to in the Scheme Document were true, accurate and complete at the time they were made and remain so at the Latest Practicable Date. The Disinterested Shareholders will be informed of any material change in this regard as soon as possible up to the Effective Date.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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We have reviewed, among other things, the Joint Announcement, the Scheme Document, the annual reports of the Company for the years ended 31 December 2017, 2018 and 2019 and the Interim Results Announcement. We have sought and received confirmation from the Directors that no material fact has been omitted from the information supplied and opinions expressed to us by them. We consider that the information we have received is sufficient for us to reach our opinion and advice as set out in this letter. We have no reason to doubt the truth and accuracy of the information provided to us or to believe that any material fact has been omitted or withheld. We have not, however, conducted any independent investigation into the businesses and affairs of the Group, nor have we carried out any independent verification on the information supplied.

### II. TERMS OF THE PROPOSAL

Under the Scheme, if the Proposal is approved and implemented, among other things, (a) the Scheme Shares held by the Scheme Shareholders (excluding the Mr. Na Related Shareholders and Kaifa) will be cancelled and extinguished on the Effective Date in exchange for the payment of the Cancellation Price of HK\$6.50 in cash for each Scheme Share; and (b) the listing of the Shares on the Stock Exchange will be withdrawn with effect after the Effective Date. Further details of the terms of the Proposal is set out in the letter from the Board and the Explanatory Statement contained in the Scheme Document.

**In addition, the Cancellation Price will not be increased and the Offeror does not reserve the right to do so.**

### III. CONDITIONS OF THE PROPOSAL

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

- (a) the approval of the Scheme (by way of poll) by a majority in number of the Disinterested Shareholders representing not less than 75% in value of the Shares held by the Disinterested Shareholders, present and voting either in person or by proxy at the Court Meeting, provided that:
  - (i) the Scheme is approved (by way of poll) by the Disinterested Shareholders holding at least 75% of the votes attaching to the Shares held by the Disinterested Shareholders that are voted either in person or by proxy at the Court Meeting; and
  - (ii) the number of votes cast (by way of poll) by the Disinterested Shareholders present and voting either in person or by proxy at the Court Meeting against the resolution to approve the Scheme at the Court Meeting is not more than 10% of the votes attaching to all the Shares held by all the Disinterested Shareholders;

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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- (b) (i) the passing of a special resolution by a majority of not less than three-fourths of the votes cast by the Shareholders present and voting in person or by proxy at the EGM to approve and give effect to the reduction of the number of issued Shares in the share capital of the Company by cancelling and extinguishing the Scheme Shares; and (ii) the passing of an ordinary resolution by a simple majority of the votes cast by the Shareholders present and voting in person or by proxy at the EGM to immediately thereafter increase the issued Shares to the amount prior to the cancellation and extinguishment of the Scheme Shares and apply the reserve created as a result of the aforesaid cancellation and extinguishment of the Scheme Shares to pay up in full at par such number of new Shares as is equal to the number of Scheme Shares cancelled and extinguished as a result of the Scheme, credited as fully paid, for issuance to the Offeror;
- (c) the Grand Court's sanction of the Scheme (with or without modifications) and, to the extent necessary, its confirmation of the reduction of the number of issued Shares in the share capital of the Company, and the delivery to the Registrar of Companies in the Cayman Islands of a copy of the order of the Grand Court for registration;
- (d) compliance, to the extent necessary, with the procedural requirements and conditions, if any, under Sections 15 and 16 of the Companies Law in relation to the reduction of the number of issued Shares in the share capital of the Company; and
- (e) approval of the Consortium Agreement and transactions contemplated thereunder by shareholders of Shenzhen Kaifa, the holding company of Kaifa, in accordance with the Rules Governing the Listing of Securities on the Shenzhen Stock Exchange having been obtained.

Conditions above cannot be waived in any event. All of the Conditions will have to be fulfilled or waived, as applicable, on or before the Long Stop Date, failing which the Proposal and the Scheme will lapse. Further details of the Conditions are set out in the letter from the Board and the Explanatory Statement contained in the Scheme Document.

As at the Latest Practicable Date, save for Condition (e), none of the Conditions has been fulfilled or waived.

#### IV. PRINCIPAL FACTORS AND REASONS CONSIDERED

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

##### 1. Background and information of the Company

###### (a) *Principal business of the Group*

The Group is principally engaged in the design, manufacturing and sales of optical networking products for the high-speed telecommunications and data communications systems as well as machine vision systems and sensors for smart manufacturing market. The Company has been listed on the Stock Exchange since 2010. The Company has operations in Shenzhen, Beijing, Hangzhou, Hong Kong, North America and Europe under the brand “O-Net”.

The operations of the Group consist of two major businesses, namely (i) optical networking business (the “**Optical Networking Business**”); and (ii) industrial and sensing businesses (the “**Industrial and Sensing Businesses**”).

The Optical Networking Business sells optical communication and data centre products such as amplifiers, couplers and connectors, intelligent character recognition, etc..

The Industrial and Sensing Businesses comprise (i) the machine vision business; (ii) the automation solutions business for E-cigarettes; (iii) the industrial laser business; (iv) the light detection and ranging (“**LiDAR**”) business; and (v) the consumer electronics business. The machine vision business provides solutions to various applications such as cameras for industrial uses, lens, sensors and robotic arms. The automation solutions business for E-cigarettes supplies heating coils and automated E-liquid filling and assembly machines for E-cigarette industry. The industrial laser business supplies high-power fused components and modules for fiber laser systems which are widely applied on macro/micro material processing, marking and engraving and welding. The components and modules in LiDAR business are widely used in the emerging advanced driver assistance systems (ADAS) application. The consumer electronics business provides coating for smartphone components.

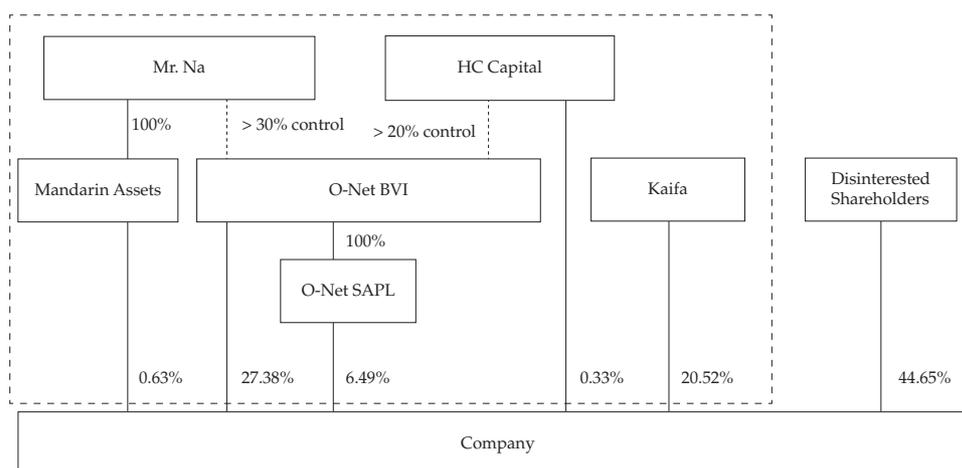
## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(b) *Shareholding of the Company*

As at the Latest Practicable Date, the Company had 834,028,240 Shares in issue. The Offeror and Offeror Concert Parties held 461,620,070 Shares, representing approximately 55.35% of the issued share capital of the Company. The Disinterested Shareholders held the remaining balance of 372,408,170 Shares, representing approximately 44.65% of the issued share capital of the Company. As at the Latest Practicable Date, there were no outstanding options, warrants, derivatives or convertible securities issued by the Company.

Set out in the chart below is a simplified shareholding structure of the Company as at the Latest Practicable Date.

### Offeror and Offeror Concert Parties



## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(c) *Financial performance of the Group*

Set out in the table below is a summary of the financial results of the Group for the six months ended 30 June 2020 and 2019 and the years ended 31 December 2019, 2018, and 2017.

	For six months ended 30 June		For year ended 31 December		
	2020 (HK\$ million) (unaudited)	2019 (HK\$ million) (unaudited)	2019 (HK\$ million) (audited)	2018 (HK\$ million) (audited)	2017 (HK\$ million) (audited)
Revenue	1,491.2	1,403.4	2,581.0	2,516.4	2,035.1
Cost of sales	<u>(1,117.7)</u>	<u>(989.2)</u>	<u>(1,830.7)</u>	<u>(1,728.4)</u>	<u>(1,308.6)</u>
<b>Gross profit</b>	373.5	414.2	750.3	788.0	726.5
Selling and marketing costs	(46.3)	(45.2)	(81.5)	(79.0)	(76.2)
Research and development expenses	(155.5)	(154.8)	(270.8)	(247.6)	(230.8)
Administrative expenses	(133.3)	(113.0)	(262.5)	(215.6)	(177.1)
Others	<u>18.4</u>	<u>22.1</u>	<u>5.0</u>	<u>63.6</u>	<u>30.4</u>
<b>Operating profit</b>	56.8	123.3	140.5	309.4	272.8
Finance income/(expenses) – net	4.0	(15.4)	(17.7)	(26.2)	(23.9)
Share of losses of investments accounted for using equity method	<u>(0.9)</u>	<u>(4.6)</u>	<u>(9.5)</u>	<u>(1.1)</u>	<u>-</u>
<b>Profit before income tax</b>	59.9	103.3	113.3	282.1	248.9
Income tax expenses	<u>(16.8)</u>	<u>(23.0)</u>	<u>(4.5)</u>	<u>(23.9)</u>	<u>(43.1)</u>
<b>Profit for the period/year</b>	<u>43.1</u>	<u>80.3</u>	<u>108.8</u>	<u>258.2</u>	<u>205.8</u>
<b>Profit/(Loss) for the period/year attributable to:</b>					
the Shareholders	42.8	83.1	117.4	261.8	208.9
non-controlling interests	<u>0.3</u>	<u>(2.8)</u>	<u>(8.6)</u>	<u>(3.6)</u>	<u>(3.1)</u>
	<u>43.1</u>	<u>80.3</u>	<u>108.8</u>	<u>258.2</u>	<u>205.8</u>
<b>Gross profit margin</b>	25.0%	29.5%	29.1%	31.3%	35.7%
<b>Net profit margin (Note)</b>	2.9%	5.9%	4.5%	10.4%	10.3%
<b>Earnings per Share (basic) for profit attributable to the Shareholders (HK\$)</b>	0.05	0.10	0.15	0.35	0.28
<b>Dividend per Share (HK\$)</b>	Nil	Nil	Nil	0.02	Nil

*Note:* the net profit margin is calculated as the profit attributable to the Shareholders divided by the revenue of the relevant period or year.

(i) Revenue

The revenue of the Group increased from approximately HK\$2,035.1 million for the year ended 31 December 2017 by approximately 23.6% to approximately HK\$2,516.4 million for the year ended 31 December 2018, and by further approximately 2.6% to approximately HK\$2,581.0 million for the year ended 31 December 2019.

The Optical Networking Business has been the core business of the Group, accounting for approximately 78.7%, 83.6%, 84.5% and 89.6% of the total revenue of the Group for the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020 (the “**Review Period**”) respectively. Revenue generated by the Group was derived from various regions in the world. For the year ended 31 December 2019, approximately 38.5%, 28.0%, 16.5% and 17.0% of revenue of the Group were derived from the PRC, Europe, North America and other Asian countries excluding the PRC respectively.

The revenue of the Group for the year ended 31 December 2018 was approximately HK\$2,516.4 million, representing an increase of approximately HK\$481.3 million or 23.6% as compared with that of HK\$2,035.1 million for the year ended 31 December 2017. The increase in revenue for the year ended 31 December 2018 was primarily attributable to the growth in revenue of the Optical Networking Business, which recorded an increase of approximately HK\$502.6 million or approximately 31.4%. Such increase was mainly attributable to the demand for components from telecommunication and data-communication sectors. According to the Management, the increasing demand from the telecommunication sectors was seen in 2018 due to the commencement of the spending of capital expenditure in 5G. The Industrial and Sensing Businesses recorded a revenue of approximately HK\$412.8 million, representing a year-on-year decrease of approximately HK\$21.3 million or 4.9% as compared with that for the year ended 31 December 2017. The decrease was mainly due to the combined effect of: (i) sharp decrease of revenue of consumer electronics business; and (ii) significant growth of revenue generated from other businesses in the Industrial and Sensing Businesses.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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The revenue of the Group recorded a modest increase of approximately HK\$64.6 million or 2.6% to approximately HK\$2,581.0 million for the year ended 31 December 2019 from that of approximately HK\$2,516.4 million for the year ended 31 December 2018. The continuing growth in the revenue was chiefly attributable to the increasing demand for the optical networking products in active components of the Optical Networking Business. According to the Management, although the Optical Networking Business remained strong in the first half of 2019, the revenue generated from this business saw a slowdown in the second half of 2019 when the largest customer of the Group experienced a reduced market share among telecommunication operators. The Industrial and Sensing Businesses recorded approximately HK\$13.5 million or 3.3% decline in revenue to approximately HK\$399.3 million for the year ended 31 December 2019. The decline was mainly due to the sharp decrease of approximately HK\$42.6 million in the consumer electronics business as a result of decrease in demand for coating of smartphone manufacturing in China as they were waiting for investment in 5G infrastructure to release 5G compatible phone models.

For the six months ended 30 June 2020, the Group's revenue amounted to approximately HK\$1,491.2 million, representing an increase of approximately 6.3% as compared to that for the corresponding period in 2019 of approximately HK\$1,403.4 million. The Optical Networking Business recorded a revenue of approximately HK\$1,336.3 million, representing an increase of approximately HK\$138.5 million from that of approximately HK\$1,197.8 million in the corresponding period in 2019. As advised by the Management, the increase in revenue was mainly attributable to the general increase in demand for products of the Optical Networking Business as the downstream customers built up more stocks for preparation of potential supply shortage arising from disruption of industry supply chains as a result of the outbreak of the COVID-19 pandemic.

(ii) Gross profit and gross profit margin

The gross profit of the Group for the year ended 31 December 2018 was approximately HK\$788.0 million, representing an increase of approximately HK\$61.5 million or approximately 8.5% as compared with that for the year ended 31 December 2017. The increase was in line with the rise in revenue from the Optical Networking Business during the year. However, the gross profit margin dropped to approximately 31.3% for the year ended 31 December 2018 from approximately 35.7% for the year ended 31 December 2017. The decrease in gross profit margin was mainly due to the net effect of (i) the gross profit margin of the Optical Networking Business declined to approximately 30.8% for the year ended 31 December 2018 from approximately 32.9% for the year ended 31 December 2017 as one of the major optical networking products of the Group suffered price cut driven by standardisation of the product and over-supply in the market; and (ii) the sharp decrease in revenue of consumer electronics business during the year.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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The gross profit of the Group for the year ended 31 December 2019 declined to approximately HK\$750.3 million, representing a decrease of approximately HK\$37.7 million or approximately 4.8% from that of approximately HK\$788.0 million for the year ended 31 December 2018. The lower gross profit was primarily due to, among others, (i) the write-down of inventories of fiber lasers in the industrial laser business; (ii) provision for impairment loss of machinery of consumer electronics business; (iii) drop of gross profit from Erbium-Doped Fiber Amplifier (EDFA) in the Optical Networking Business; and (iv) decrease in gross profit of consumer electronics business due to the decrease in demand for coating of smartphone manufacturers in China as mentioned above. The gross profit margin further declined to approximately 29.1% for the year ended 31 December 2019 as compared with approximately 31.3% for the year ended 31 December 2018 for the reasons as mentioned above.

The gross profit of the Group for the six months ended 30 June 2020 was approximately HK\$373.5 million, representing a decrease of approximately HK\$40.7 million or approximately 9.8% from approximately HK\$414.2 million for the corresponding period in 2019. The decline in gross profit was mainly due to: (a) the increase in labour cost and cost of raw materials as higher labour cost were incurred during the Chinese New Year and higher demand for raw materials in response to the supply shortage arising from disruption of industry supply chains triggered by the COVID-19 pandemic during the period; and (b) certain products sold by the Group were no longer competitive in the market and had to be written-off due to the rapid development of competing technologies. As a result of the above, the gross profit margin further declined to approximately 25.0% as compared to approximately 29.5% for the corresponding period in 2019.

(iii) Selling and marketing costs

The selling and marketing costs for the year ended 31 December 2018 was approximately HK\$79.0 million, representing a year-on-year increase of approximately HK\$2.8 million or approximately 3.7% as compared to that for the year ended 31 December 2017. The increase was mainly attributable to the net effects of (i) the increase of the salary costs; (ii) lower freight charges; and (iii) the increase of share options/share awards expenses.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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The selling and marketing costs for the year ended 31 December 2019 further increased to approximately HK\$81.5 million. The increase was mainly due to the net effects of (i) the increase in salary costs; (ii) the increase in share options/share awards expenses; (iii) the increase in travelling and consumable expenses; and (iv) the decrease in sales commission.

The selling and marketing costs increased slightly from approximately HK\$45.2 million for the six months ended 30 June 2019 to approximately HK\$46.3 million for the six months ended 30 June 2020, which was driven mainly by the increase in salary costs.

(iv) Research and development (“R&D”) expenses

The R&D expenses for the year ended 31 December 2018 was approximately HK\$247.6 million, which was approximately HK\$16.8 million or approximately 7.3% higher than that of approximately HK\$230.8 million for the year ended 31 December 2017. Similar to the selling and marketing costs, the rise in R&D expenses was primarily due to the increase in salary costs for the R&D engineers as more R&D engineers were hired as well as higher salaries. Nevertheless, the decrease in raw material consumed in R&D projects during the year partly offset the rise of the salary costs.

The R&D expenses further increased by approximately HK\$23.2 million or approximately 9.4% to approximately HK\$270.8 million for the year ended 31 December 2019. The increased salary costs of the R&D engineers, as a result of the increase in hiring of R&D engineers and higher salaries, was the main reason for the increased R&D expenses during the year.

The R&D expenses for the six months ended 30 June 2020 was approximately HK\$155.5 million, which was generally similar to the level of that for the corresponding period in 2019 of approximately HK\$154.8 million.

(v) Administrative expenses

The administrative expenses for the year ended 31 December 2018 was approximately HK\$215.6 million, which was approximately HK\$38.5 million or approximately 21.7% higher as compared with that approximately HK\$177.1 million for the year ended 31 December 2017. The increases in the salary costs, share options/share awards expenses and overall administrative expenses were the main reasons for the increase in administrative expenses during the year.

The administrative expenses for the year ended 31 December 2019 was approximately HK\$262.5 million, representing a further increase of approximately HK\$46.9 million or approximately 21.7% as compared with that for the year ended 31 December 2018. The increases in salary costs, depreciation and amortisation charges, share options/share awards expenses as well as other administrative expenses contributed to the increment. The administrative expenses raised to approximately 10.2% to total revenue for the year ended 31 December 2019, as compared to that of approximately 8.6% and approximately 8.7% for the years ended 31 December 2018 and 2017 respectively, which was mainly due to the consolidation of 3SP Technologies (“3SP”), a French company principally engaged in R&D, manufacturing and sales of chips and laser products in France, acquired by the Group during the year.

The administrative expenses for the six months ended 30 June 2020 was approximately HK\$133.3 million, representing an increase of approximately HK\$20.3 million or approximately 18.0% from that for the corresponding period in 2019 of approximately HK\$113.0 million. The increase was mainly due to increase in number of employees and increase in professional fees for the setting up new branches in Boston, at the United States and Thailand during the period.

(vi) Profit/(Loss) for the period/year attributable to the Shareholders

The Group recorded profit attributable to the Shareholders of approximately HK\$208.9 million, approximately HK\$261.8 million and approximately HK\$117.4 million for the years ended 31 December 2017, 2018 and 2019 respectively.

The increase in the net profit for the year ended 31 December 2018 was mainly due to the increase in revenue and the decrease in income tax expenses, although it has been partly offset by the higher R&D expenses and administrative expenses during the year.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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The profit attributable to the Shareholders for the year ended 31 December 2019 declined by approximately 55.2% to approximately HK\$117.4 million. The decline in profit was chiefly due to (i) the modest increase in revenue and the decrease in gross profit; (ii) the higher R&D expenses and the administrative expenses; and (iii) the decrease in government grants from approximately HK\$41.0 million for the year ended 31 December 2018 to approximately HK\$13.7 million for the year ended 31 December 2019.

The profit attributable to the Shareholders for the six months ended 30 June 2020 declined by approximately HK\$40.3 million to approximately HK\$42.8 million from approximately HK\$83.1 million for the corresponding period in 2019. The significant decline was mainly due to the combined effects of: (i) the decrease in gross profit due to the increase in cost of sales; (ii) the increase in administrative expenses; (iii) the increase in net finance income of approximately HK\$19.4 million from a net finance expense of approximately HK\$15.4 million for the six months ended 30 June 2019 to a net finance income of approximately HK\$4.0 million for the six months ended 30 June 2020 as a result of the recognition of a net exchange gain approximately HK\$19.9 million for the six months ended 30 June 2020 as compared to a net exchange loss of approximately HK\$1.0 million for the corresponding period in 2019; and (iv) the decrease in income tax expenses of approximately HK\$6.2 million from approximately HK\$23.0 million for the six months ended 30 June 2019 to approximately HK\$16.8 million as the profit before tax decreased during the six months ended 30 June 2020.

(vii) Earnings per Share and dividend per Share

Earnings per Share, which is calculated as profit attributable to the Shareholders divided by the weighted average number of ordinary shares in issue, was approximately HK\$0.28, HK\$0.35, HK\$0.15 and HK\$0.05 for the years ended 31 December 2017, 2018 and 2019 and for the six months ended 30 June 2020 respectively. The changes in earnings per Share were generally in line with the profit attributable to the Shareholders as discussed above.

Except for a final dividend of HK\$0.02 per Share for the year ended 31 December 2018, the Group had not paid any dividend during the Review Period.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(d) *Financial position of the Group*

Set out in the table below is a summary of the financial position of Group as at 30 June 2020 and 31 December 2019, 2018 and 2017.

	As at 30 June 2020 (HK\$ million) (unaudited)	As at 31 December 2019 (HK\$ million) (audited)	As at 31 December 2018 (HK\$ million) (audited)	2017 (HK\$ million) (audited)
<b>Non-current assets</b>				
Property, plant and equipment	1,092.9	1,073.4	957.8	916.0
Intangible assets	247.2	247.1	90.4	82.6
Other non-current assets	201.3	183.2	340.7	324.3
	1,541.4	1,503.7	1,388.9	1,322.9
<b>Current assets</b>				
Inventories	713.2	596.4	501.0	377.5
Trade and other receivables	1,128.4	876.6	865.9	975.0
Pledged bank deposits and cash and cash equivalents	456.0	491.8	407.3	405.6
Other current assets	26.7	25.0	56.2	22.9
	2,324.3	1,989.8	1,830.4	1,781.0
<b>Current liabilities</b>				
Trade and other payables	678.8	433.0	428.8	366.8
Borrowings	674.2	591.0	487.8	653.7
Other current liabilities	44.7	52.8	31.7	32.7
	1,397.7	1,076.8	948.3	1,053.2
<b>Net current assets</b>	926.6	913.0	882.1	727.8
<b>Non-current liabilities</b>				
Lease liabilities	32.0	37.5	–	–
Other non-current liabilities	46.3	41.3	23.6	17.6
	78.3	78.8	23.6	17.6
<b>Equity</b>				
Equity attributable to the Shareholders	2,389.7	2,348.5	2,249.4	2,031.5
Non-controlling interests	–	(10.6)	(2.0)	1.6
	2,389.7	2,337.9	2,247.4	2,033.1
<b>Net asset value (“NAV”) per Share (Note)</b>	2.87	2.84	2.80	2.54

*Note:* NAV per Share is calculated based on the equity attributable to the Shareholders divided by the number of Shares in issue as at the respective balance sheet date.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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(i) Property, plant and equipment

Property, plant and equipment mainly consisted of buildings, machinery, furniture, fitting and equipment and construction in progress of the Group for production purposes. They were largely factories and auxiliary facilities located in the PRC, Europe and North America. The construction in progress mainly comprised costs incurred for a new production plant under construction, which was located in Pingshan, Shenzhen, the PRC. The property, plant and equipment were generally increasing during the Review Period as a result of the Group's acquisitions of furniture, fitting and equipment and machinery.

(ii) Intangible assets

Intangible assets primarily represented the goodwill arising mainly from acquisitions, development expenditure and patent acquired. The increase in intangible assets during the year ended 31 December 2019 was mainly due to the acquisition of 3SP during the year, giving rise to a goodwill of approximately HK\$94.8 million.

(iii) Inventories

Inventories represented largely raw materials, work-in-progress and finished goods. The inventories increased in general during the Review Period, which was in line with the increase in revenue during the Review Period and the Group has stocked-up raw materials to avoid any disruption in raw materials purchases due to trade war in near future.

(iv) Trade and other receivables

The trade and other receivables mainly comprises: (i) net trade receivables (i.e. trade receivables less provision for impairment of receivables); (ii) bills receivables; and (iii) prepayments and others. The net trade receivables decreased from approximately HK\$707.3 million as at 31 December 2017 to approximately HK\$690.1 million as at 31 December 2018 and further declined to approximately HK\$638.1 million as at 31 December 2019. The drop in the net trade receivables was chiefly due to the additional provision for impairment of receivables, which has grown from approximately 0.1% of total trade receivables as at 31 December 2017 to approximately 1.3% of the total trade receivables as at 31 December 2019 as required under the revised financial reporting standards. The bills receivables decreased from approximately HK\$193.1 million as at 31 December 2017 to approximately HK\$87.0 million as at 31 December 2018 and increased to approximately HK\$146.3 million as at 31 December 2019. The net trade receivables and bills receivables as at 30 June 2020 were approximately HK\$934.0

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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million and approximately HK\$114.9 million respectively. The increase in the total amount of the net trade receivables and bills receivables was largely because the Group has conducted more business with Chinese customers, whose credit period was generally longer than that of the overseas customers.

(v) Trade and other payables

Trade and other payables chiefly comprise trade payables, bills payable and accrued staff cost. Trade payables were largely in line with the inventory levels throughout the Review Period. The majority of the trade payables were payable within 60 days throughout the Review Period. The trade payables increased to approximately HK\$461.5 million as at 30 June 2020 from approximately HK\$229.1 million as at 31 December 2019. As advised by the Management, the Group has increased purchases of inventories and has managed to negotiate a longer payment terms with its suppliers.

(vi) Borrowings

All bank borrowings of the Group were current during the Review Period. The borrowings of the Group decreased from approximately HK\$653.7 million as at 31 December 2017 to approximately HK\$487.8 million as at 31 December 2018 and increased to approximately HK\$591.0 million as at 31 December 2019. The increase in the bank borrowings in 2019 was mainly due to more capital expenditure required for 3SP, the newly acquired subsidiary in France, and the general increase in working capital requirement of the Group. The gearing ratio, calculated as total borrowings over total equity, was remain at a relatively healthy level of approximately 25.3% as at 31 December 2019. The bank borrowings of the Group as at 30 June 2020 was approximately HK\$674.2 million, which was higher than that of approximately HK\$591.0 million as at 31 December 2019. The gearing ratio of the Group increased to approximately 28.2% as at 30 June 2020.

(vii) Net assets

As at 31 December 2019, the NAV attributable to the Shareholders was approximately HK\$2,348.5 million. The increase in the NAV attributable to the Shareholders as compared with that as at 31 December 2018 was mainly attributable to the profit generated for the year ended 31 December 2019. Based on 826,860,240 Shares and 834,028,240 Shares in issue as at 31 December 2019 and the Latest Practicable Date, the NAV per Share as at 31 December 2019 were approximately HK\$2.84 and approximately HK\$2.82 respectively.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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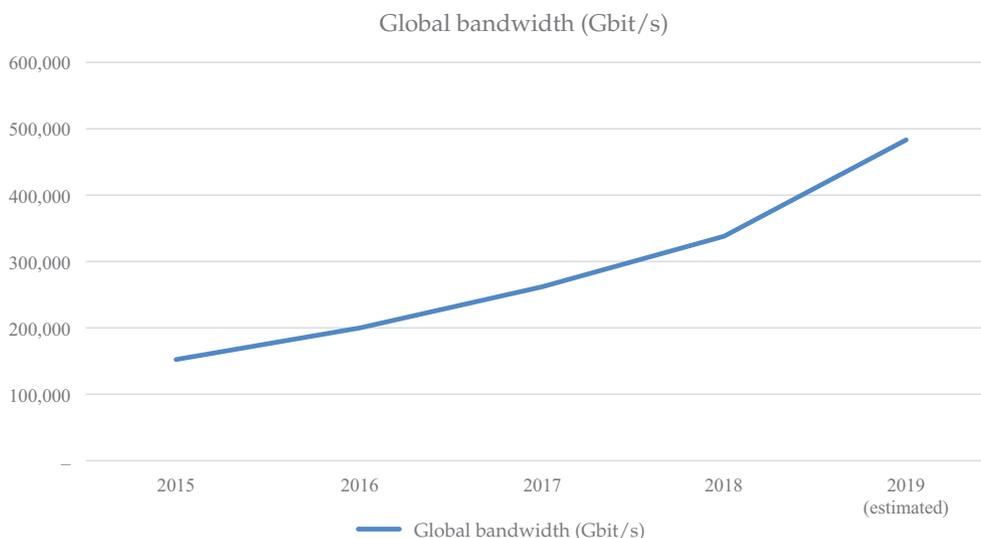
As at 30 June 2020, the NAV attributable to the Shareholders further increased to approximately HK\$2,389.7 million, the increase of which was generally in line with the profit attributable to the Shareholders during the six months ended 30 June 2020. Based on the 834,028,240 Shares in issue as at 30 June 2020 and the Latest Practicable Date, the NAV per Share was approximately HK\$2.87 as at 30 June 2020.

### 2. Industry overview and prospects of the Group

As the operations of the Group mainly consist of the Optical Networking Business and the Industrial and Sensing Businesses, we have reviewed the trends and outlook of these businesses as set out below.

#### (a) *The Optical Networking Business*

As discussed in the annual report of the Company for the year ended 31 December 2019 (the “2019 Annual Report”), data is growing at a rising rate and the scale of optical communication is anticipated to accelerate to cope with the global demand. According to Statista, one of the leading global providers of market and consumer data, there were approximately 4.57 billion active internet users in the world as of April 2020, accounting for approximately 59% of the global population. Furthermore, according to the International Telecommunication Union (“ITU”), a specialised agency of the United Nations that is responsible for issues that concern information and communication technologies, the telecommunication infrastructure had been growing in recent years such that the global bandwidth increased from approximately 152,817 giga bit per second (“Gbit/s”) in 2015 to approximately 337,498 Gbit/s in 2018 and ITU estimated that the global bandwidth would further increase to approximately 484,968 Gbit/s by 2019. Details of the above are set out in the graph below:



Source: ITU

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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With the potential increase in both the number of internet users and the amount of data created per user, it is expected that the optical communication would benefit from the growing network volume in the long run. Consequently, the demand for and the capital investment in advanced global telecommunications infrastructure is expected to grow in long-term future.

On the other hand, there are a number of challenges in the operating environment of the Group in the short and medium term of the future. First, as advised by the Management, the largest customer of the Group saw shrinking market share in the industry since the second half of 2019. This has indirectly led to the reduction of revenue from this customer for the year ended 31 December 2019 and may jeopardise the growth of revenue from this customer in the near future. Furthermore, according to the Management, certain key customers in China have encountered increasing hawkish trade policies in the first half of 2020 that may impact the Group's long-term growth trajectory. One of the key Chinese customers of the Group, which is a global provider of information and communication technology, faced unprecedented setback in their business after the recent ban from participating in the development of the 5G telecommunication network by the governments of the United States and the United Kingdom. This may also indirectly and potentially affect the revenue of the Group generated from this key Chinese customers in the future. Moreover, the Company's overseas markets are also susceptible to similar trade tensions depending on the future evolution of China US dynamics in trade as well as other aspects.

To make matters worse, the world has been overwhelmed by the outbreak of the COVID-19 pandemic with significant economic contraction. Worldwide slowdown in economic activities and lockdown of cities were observed in first and second quarters of 2020. The dim economic outlook would hinder the commitment in capital expenditure among global telecommunication operators. The pandemic also caused supply shock in the industry where the Group operates as some of the raw materials were less accessible to the Group. Higher production cost is also expected in respond to the precautionary measures for labour force protection.

*(b) The Industrial and Sensing Businesses*

According to the 2019 Annual Report, certain divisions of the Industrial and Sensing Businesses saw expansions to new markets and new geographical areas in 2019. In the long run, more capital investment for automation solutions, machine vision systems and sensing products will provide the chance to tap the opportunities generated for the Group to further penetrate the intelligent, digitalised and networked manufacturing market. The ramping-up of smart factories and emerging applications such as Advanced Driver Assistance Systems and E-cigarettes will foster the growth of certain divisions of the Industrial and Sensing Businesses.

Nonetheless, as advised by the Management, several divisions in the Industrial and Sensing Businesses have faced headwinds since 2019 and the overall performance of these businesses were mixed. For example, the E-cigarette faced a more stringent regulation in the United States. Such push back from the policymakers will adversely affect the sales in the automation solutions business for E-cigarettes. Also, the consumer electronics market is expected to further decline due to lower demand for coating of smartphones in near future.

Although the Management remained cautious on the outlook of the Optical Networking Business and the Industrial and Sensing Businesses, having considered the challenging operating environment faced by the Group and the uncertain economic outlook of the world, we are of the view that there remains uncertainty on the prospect of the Group in the short and medium term.

### **3. Reasons for and benefits of the Proposal and the Offeror's intentions in relation to the Group**

The following has been extracted from section 7 of the Explanatory Statement in relation to the reasons for and benefits of the Proposal.

#### *(a) Low liquidity of the Shares*

The liquidity of the Shares has been at a relatively low level over a prolonged period of time, with an average daily trading volume of 1,491,740 Shares for the 24 months up to and including the Last Trading Day, representing less than 0.18% of the total issued Shares as at the Last Trading Day. Low trading liquidity of the Shares renders it difficult for Shareholders to execute substantial on-market disposals without adversely affecting the price of the Shares. Further, the Directors believe that such low liquidity hinders the Company's ability to raise funds from the public equity market, which no longer serves as a viable source of funding for developing the Group's business.

#### *(b) Attractive opportunity to realise investments*

The Proposal is intended to provide the Scheme Shareholders with an attractive opportunity to realise their investments and interests in the Company for cash at a premium. The Cancellation Price represents a premium of approximately:

- (i) 23.57% over the closing price of the Shares on the Last Trading Day;
- (ii) 25.68% over the average closing price of the Shares for the 10 trading days up to and including the Last Trading Day;
- (iii) 24.56% over the average closing price of the Shares for the 30 trading days up to and including the Last Trading Day;

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

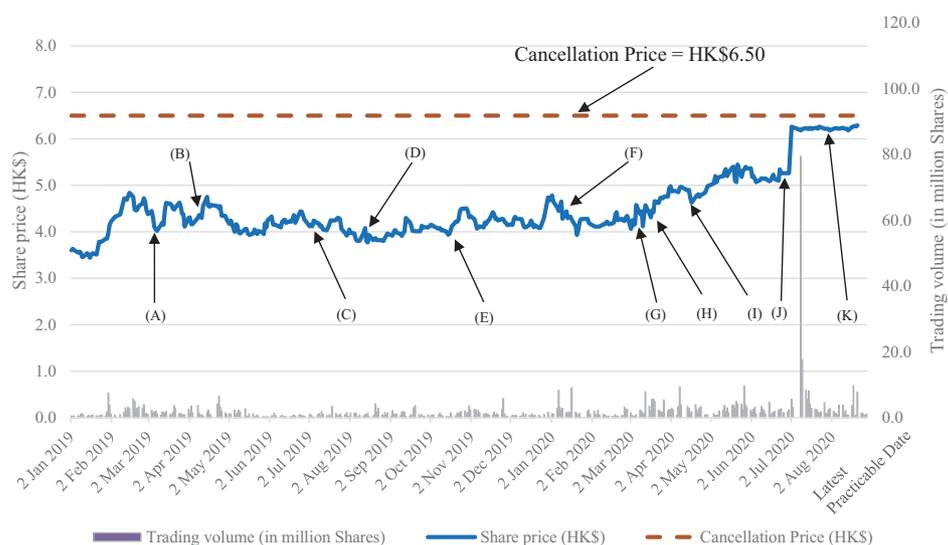
- (iv) 34.26% over the average closing price of the Shares for the 90 trading days up to and including the Last Trading Day;
- (v) 43.18% over the average closing price of the Shares for the 180 trading days up to and including the Last Trading Day;
- (vi) 19.27% over the average closing price of the Shares for the 52-week closing high; and
- (vii) 128.85% over the audited consolidated net asset value per Share as at 31 December 2019.

As mentioned in the Explanatory Statement, it is the intention of the Offeror that the Group will continue to carry on its current business. The Offeror does not intend to introduce any major changes to the business of the Group (including any redeployment of fixed assets of the Group) or make any significant changes to the continued employment of the employees of the Group as a result of the implementation of the Proposal.

#### 4. Analysis of Share price

##### (a) Historical Share price performance

Set out in the chart below is the daily closing price and trading volume of the Shares on the Stock Exchange during the period from 1 January 2019 up to and including the Latest Practicable Date (the “Share Price Review Period”).



Source: Bloomberg and the Stock Exchange website

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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During the Share Price Review Period, the Company published a number of announcements (as summarised below) that we considered to be crucial in shaping the market price of the Shares.

	<b>Date of announcement</b>	<b>Description of the event</b>
(A)	19 March 2019	Announcement of annual results for the year ended 31 December 2018
(B)	23 April 2019	Announcement of unaudited revenue for the three months ended 31 March 2019
(C)	15 July 2019	Announcement of issue of new Shares under general mandate pursuant to the restricted Share award scheme
(D)	20 August 2019	Announcement of interim results for the six months ended 30 June 2019
(E)	22 October 2019	Announcement of unaudited revenue for the nine months ended 30 September 2019
(F)	16 January 2020	Announcement of profit warning
(G)	17 March 2020	Announcement of annual results for the year ended 31 December 2019
(H)	24 March 2020	Announcement of temporary suspension of production facilities in Canada
(I)	23 April 2020	Announcement of unaudited revenue for the three months ended 31 March 2020
(J)	8 July 2020	Publication of the Joint Announcement
(K)	4 August 2020	Announcement of interim results for the six months ended 30 June 2020

During the period from 1 January 2019 to the Last Trading Day, the Shares closed between HK\$3.44 and HK\$5.45, which had been lower than the Cancellation Price of HK\$6.50.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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The closing Share price saw an upward trend at the beginning of the Share Price Review Period, increasing from HK\$3.60 to HK\$4.84 by late February 2019. It then lost traction and was fluctuating before the publication of the announcement of unaudited revenue for the three months ended 31 March 2019 and, despite the increase in the aforesaid unaudited revenue in the first quarter of 2019, the Share price dropped gradually to around HK\$4.00 in mid-May 2019. Since then, it had started to fluctuate at around HK\$4.00 for a sustained period until early 2020. On 16 January 2020, the Company issued a profit warning announcement noting that the net profit of the Group for the year ended 31 December 2019 may decrease by more than 50% as compared with that for the year ended 31 December 2018, following which the Share price dropped from HK\$4.65 to HK\$3.93 before a notable upward trend was formed in around April 2020 and it reached the highest Share price during the Share Price Review Period (but prior to the publication of the Joint Announcement) of HK\$5.45 on 29 May 2020.

Trading of the Shares was suspended from 6 July 2020 to 8 July 2020 pending for the release of the Joint Announcement. The Shares closed at HK\$6.26 on 9 July 2020 (being the first trading day after the release of the Joint Announcement), representing an increase of approximately 19.0% from the last closing price before the trading halt and a discount of approximately 3.7% to the Cancellation Price. Furthermore, it is noteworthy that the Share price had only been higher than the Cancellation Price of HK\$6.50 per Scheme Share for a short period of time from mid-March 2017 to early April 2017 ever since the listing of the Shares on the Stock Exchange in 2010. As such, the Disinterested Shareholders should be aware that there can be no assurance that the Shares will trade at or above the Cancellation Price of HK\$6.50 per Scheme Share in the future.

Out of the 370 trading days during the period from 1 January 2019 to the Last Trading Day (the “**Pre-Announcement Period**”), the Shares closed at all times below the Cancellation Price of HK\$6.50, ranging from HK\$3.44 to HK\$5.45.

After the release of the Joint Announcement and up to the Latest Practicable Date, the closing price of the Shares was between HK\$6.18 and HK\$6.29, with an average closing price of HK\$6.23. As at the Latest Practicable Date, the price of the Shares closed at HK\$6.29.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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(b) *Historical Share price performance compared to the Hang Seng Index*

In addition to the above, we have also compared the Share price performance with the Hang Seng Index during the Share Price Review Period.



Source: Bloomberg and the Stock Exchange website

We have looked at the possible impact on the Share price in relation to the Company's performance and corporate actions in the sub-section (a) above. In this sub-section, we attempted to examine the possible cause for the fluctuation of the Share price due to the change in the overall market sentiment. As set out in the graph above, we have compared the relative price performance of the Shares and the Hang Seng Index since the beginning of 2019. The Share price had been performing modestly better than the Hang Seng Index in 2019. The performance of the Share price and the Hang Seng Index saw a divergence since late January 2020 when the market crashed as a result of, among other things, the outbreak of the COVID-19 pandemic. The Hang Seng Index had plummeted while the Share price had started an upward trend, which might be potentially influenced by the build-up of market expectation on the increased demand for data usage such that optical network infrastructure would be essential to fulfill the increasing demand. Overall, the Share price performance has outperformed the Hang Seng Index during the same period albeit the worsening general market condition.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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- (c) *Historical Share price performance and NAV per Share compared to the Cancellation Price of HK\$6.50 per Scheme Share*

A comparison of the Cancellation Price of HK\$6.50 per Scheme Share with the recent closing prices of the Shares and NAV per Share is set out as follows:

	Closing price or average closing price of the Shares or NAV per Share	Premium of Cancellation Price of HK\$6.50 per Scheme Share over the closing price or average closing price of the Shares or the NAV per Share
Last Trading Day	HK\$5.26	23.6%
5 trading days ( <i>Note 1</i> )	HK\$5.21	24.8%
10 trading days ( <i>Note 1</i> )	HK\$5.17	25.7%
30 trading days ( <i>Note 1</i> )	HK\$5.22	24.5%
60 trading days ( <i>Note 1</i> )	HK\$5.08	28.0%
90 trading days ( <i>Note 1</i> )	HK\$4.84	34.3%
120 trading days ( <i>Note 1</i> )	HK\$4.70	38.3%
180 trading days ( <i>Note 1</i> )	HK\$4.54	43.2%
Latest Practicable Date	HK\$6.29	3.3%

Audited NAV attributable to the Shareholders per Share as at 31 December 2019:

(i)	Based on the total number of issued Shares as at 31 December 2019 ( <i>Note 2</i> )	HK\$2.84	128.9%
(ii)	Based on the total number of issued Shares as at the Latest Practicable Date ( <i>Note 2</i> )	HK\$2.82	130.5%

Unaudited NAV attributable to the Shareholders per Share as at 30 June 2020 ( <i>Note 2</i> )	HK\$2.87	126.5%
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Source: *Bloomberg, the Stock Exchange website, the 2019 Annual Report and the Interim Results Announcement*

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*Notes:*

1. Up to and including the Last Trading Day.
2. The total number of issued Shares as at 31 December 2019, 30 June 2020 and the Latest Practicable Date were 826,860,240 Shares, 834,028,240 Shares and 834,028,240 Shares respectively.

The Cancellation Price of HK\$6.50 per Scheme Share represents a premium of about 23.6% to 43.2% over the closing Share price on the Last Trading Day and the average closing price of the Shares for the 5-, 10-, 30-, 60-, 90-, 120- and 180-trading day (up to and including the Last Trading Day) before the release of the Joint Announcement. The closing Share price as at the Latest Practicable Date and the corresponding premium were HK\$6.29 and 3.3% respectively. We consider that the Share price as at the Latest Practicable Date and the reduced premium are affected by the Proposal.

The Cancellation Price represents a premium in the region of approximately 130% over the NAV attributable to the Shareholders per Share as at 31 December 2019 and approximately 127% over the NAV attributable to the Shareholders per Share as at 30 June 2020.

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**LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

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(d) *Trading liquidity of the Shares*

Set out in the table below are the monthly total trading volume of the Shares and the percentages of such monthly total trading volume to the total issued Shares and the Shares held by the Disinterested Shareholders in the Share Price Review Period:

	Monthly total trading volume of the Shares	Percentage of the monthly total trading volume of the Shares to the total issued Shares (Note 1)	Percentage of the monthly total trading volume to the Shares held by the Disinterested Shareholders (Note 2)
<b>2019</b>			
January	23,543,503	2.8%	6.3%
February	43,309,355	5.2%	11.6%
March	30,825,075	3.7%	8.3%
April	39,535,746	4.7%	10.6%
May	19,049,951	2.3%	5.1%
June	10,033,053	1.2%	2.7%
July	19,369,362	2.3%	5.2%
August	24,082,517	2.9%	6.5%
September	24,271,974	2.9%	6.5%
October	22,552,535	2.7%	6.1%
November	31,253,006	3.7%	8.4%
December	13,502,499	1.6%	3.6%
<b>2020</b>			
January	46,005,502	5.5%	12.4%
February	21,139,554	2.5%	5.7%
March	56,814,124	6.8%	15.3%
April	50,199,106	6.0%	13.5%
May	59,501,912	7.1%	16.0%
June	43,749,160	5.2%	11.7%
July (Note 3)	156,153,868	18.7%	41.9%
From 1 August 2020 up to and including the Latest Practicable Date	44,938,550	5.4%	12.1%

Source: *Bloomberg and the Stock Exchange website*

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

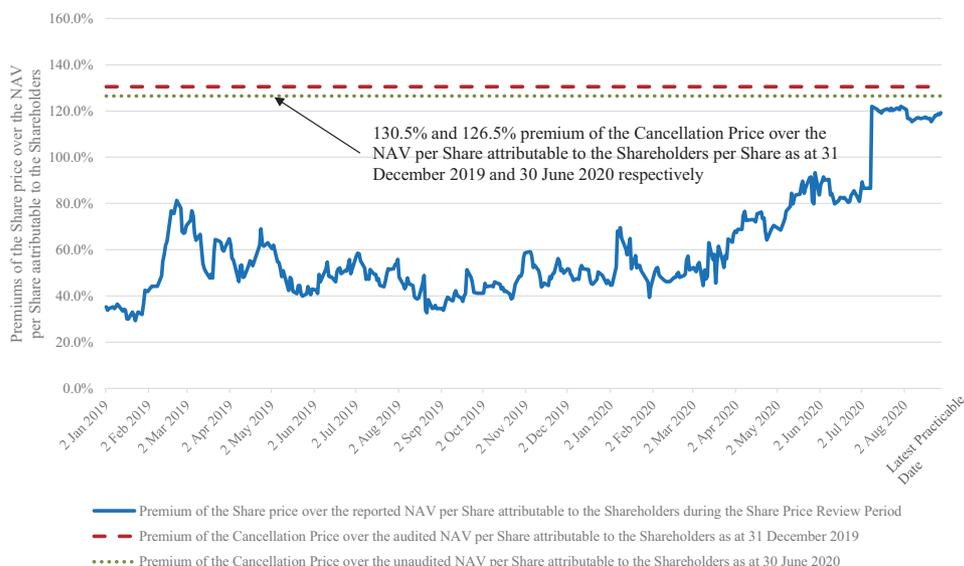
### Notes:

1. The calculation is based on the monthly total trading volume of the Shares divided by the total issued Shares of 834,028,240 as at Latest Practicable Date.
2. The calculation is based on the monthly total trading volume of the Shares divided by the total number of Shares of 834,028,240 as at the Latest Practicable Date after subtracting the total number of Shares of 461,620,070 held by the Offeror and Offeror Concert Parties.
3. Trading in the Shares was suspended from 6 July 2020 to 8 July 2020 pending the release of the Joint Announcement.

Based on the above table, we are of the view that the liquidity of the Shares was generally low during the Share Price Review Period save for the surges in trading volume (i) during the first half of 2020 (except for February 2020) which was generally in line with the increase in turnover of the Hong Kong stock market; and (ii) in July and August 2020 following the release of the Joint Announcement. As the Shares cannot be regarded as having been actively traded, the Proposal provides an exit opportunity for the Scheme Shareholders who would like to realise their investments in the Shares at a fixed cash price (i.e. the Cancellation Price).

### (e) Premium of the Share price over the NAV per Share

The Cancellation Price of HK\$6.50 per Scheme Share represents a premium of approximately 130.5% and 126.5% over the NAV attributable to the Shareholders per Share of approximately HK\$2.82 and approximately HK\$2.87 as at 31 December 2019 and 30 June 2020 respectively (calculated based on a total of 834,028,240 Shares in issue as at the Latest Practicable Date). We have reviewed the premiums of the Share price over the NAV attributable to the Shareholders per Share (based on the interim and annual results announcements and the monthly returns of the Company) during the Share Price Review Period, which are set out in the following:



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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As set out in the chart above, the Shares have been trading at premiums over NAV attributable to the Shareholders per Share throughout the Share Price Review Period, ranging from approximately 29.2% to approximately 93.3% during the Pre-Announcement Period and the premium further increased to approximately 122.0% and 118.1% based on the NAV attributable to the Shareholders as at 31 December 2019 and 30 June 2020 respectively on the trading day after the publication of the Joint Announcement. Based on the Cancellation Price of HK\$6.50 and the NAV attributable to the Shareholders per Share of approximately HK\$2.82 and HK\$2.87 as at 31 December 2019 and 30 June 2020 respectively, the Cancellation Price represents premiums of approximately 130.5% and 126.5% respectively, which are significantly higher than the range of that during the Pre-Announcement Period.

### 5. Comparable Companies analysis

The Group is principally engaged in the design, manufacture and sales of optical networking products and machine vision systems and sensors. As mentioned above, since manufacture and sales of optical networking products accounted for in the region of approximately 85% of the Group's total revenue, therefore, we have reviewed and identified companies listed on the mainboard of the Stock Exchange engaging in and having majority of their revenue derived from manufacture and sales of optical networking products (the "Comparable Companies"). We consider the Comparable Companies to be exhaustive based on the selection criteria as set out above and, in general, would serve as a fair and representative sample for the purpose of drawing a meaningful comparison to the Cancellation Price. Details of the Comparable Companies are set out below:

Company (Stock code)	Principal activities	Market capitalisation as at the Latest Practicable Date (HK\$ million)	Price-to- earnings ratio ("PER") (times) (Note 1)	Price-to-book ratio ("PBR") (times) (Note 2)	Dividend yield (%) (Note 3)
Yangtze Optical Fibre and Cable Joint Stock Limited Company (6869)	It is principally engaged in the manufacture and sales of optical fiber preforms, optical fibers and optical fiber cables.	10,519.7	15.1	1.1	2.5%

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**LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

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Company (Stock code)	Principal activities	Market capitalisation as at the Latest Practicable Date (HK\$ million)	Price-to- earnings ratio ("PER") (times) (Note 1)	Price-to-book ratio ("PBR") (times) (Note 2)	Dividend yield (%) (Note 3)
The Company (877)	The Company is principally engaged in the design, manufacture and sales of optical networking products and machine vision systems and sensors.	4,387.0 (Note 4)	56.9	1.8	0.0%
Trigiant Group Limited (1300)	It is principally engaged in the manufacture and sales of feeder cable and related products for mobile communications and telecommunication equipment.	1,612.4	Not applicable (Note 5)	0.4	0.0%
Nanfang Communication Holdings Limited (1617)	It is principally engaged in manufacturing and selling a range of optical fiber cable products.	1,444.8	38.4	1.6	3.0%
		<b>Average</b>	36.8	1.2	1.4%
		<b>Median</b>	38.4	1.4	1.3%
		<b>Maximum</b>	56.9	1.8	3.0%
		<b>Minimum</b>	15.1	0.4	0.0%
<b>The Cancellation Price</b>			70.4 (Note 6)	2.3 (Note 7)	0.0% (Note 8)

*Source: Bloomberg, the website of the Stock Exchange, annual reports and interim results announcements of the Comparable Companies*

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*Notes:*

1. The PERs of the Comparable Companies are calculated based on the market capitalisation of the respective Comparable Companies as at the Latest Practicable Date (except for the Company, which is based on the closing price of HK\$5.26 as at the Last Trading Day) divided by the earnings of the respective Comparable Companies for the trailing 12 months based on their most recently published annual reports and interim results announcements.
2. The PBRs of the Comparable Companies are calculated based on the market capitalisation of the respective Comparable Companies as at the Latest Practicable Date (except for the Company, which is based on the closing price of HK\$5.26 as at the Last Trading Day) divided by the NAV attributable to the shareholders of the relevant Comparable Companies based on their most recently published annual reports or interim results announcements.
3. The dividend yields of the Comparable Companies are calculated based on the total dividends per share but excluding special dividend (if any) declared by the relevant Comparable Companies in the past twelve months prior to the Latest Practicable Date divided by the share price of the relevant Comparable Companies as at the Latest Practicable Date (except for the Company, which is calculated using the closing price of HK\$5.26 as at the Last Trading Day).
4. Market capitalisation of the Company is calculated as the closing price of HK\$5.26 as at the Last Trading Day multiplies by the number of Shares in issue at the Latest Practicable Date.
5. Since Trigiant Group Limited recorded a loss attributable to its shareholders during the trailing 12 months, its PER is not applicable.
6. The implied PER of the Cancellation Price is calculated based on the Cancellation Price of HK\$6.50 per Scheme Share divided by the earnings per Share for the trailing 12 months based on the Company's most recently published annual report and interim results announcement.
7. The implied PBR of the Cancellation Price is calculated based on the Cancellation Price of HK\$6.50 per Scheme Share divided by the NAV attributable to the Shareholders per Share as referenced from the Company's most recently published interim results announcement.
8. The implied dividend yield of the Cancellation Price is calculated as the total dividends per share but excluding special dividend (if any) declared by the Company in the past twelve months prior to the Latest Practicable Date divided by the Cancellation Price of HK\$6.50 per Scheme Share.

*(a) Comparison of the PERs*

As shown in the table above, the implied PER of the Cancellation Price of approximately 70.4 times is higher than the range of the PERs of the Comparable Companies from approximately 15.1 times to approximately 56.9 times and it is higher than both the average and median of the PERs of the Comparable Companies of approximately 36.8 times and approximately 38.4 times respectively.

*(b) Comparison of the PBRs*

As shown in the table above, the implied PBR of the Cancellation Price of approximately 2.3 times is higher than the range of the PBRs of the Comparable Companies from approximately 0.4 times to approximately 1.8 times and it is higher than the average and median of the PBRs of the Comparable Companies of approximately 1.2 times and approximately 1.4 times respectively.

*(c) Comparison of dividend yields*

As shown in the table above, since the Company had not declared any dividend in the past 12 months, the implied dividend yield of the Cancellation Price is 0.0%, which is at the bottom end of the range of the dividend yields of the Comparable Companies which ranged from 0.0% to approximately 3.0%.

**6. Privatisation Precedents**

We have compared the Proposal with privatisation proposals of other companies listed on the Main Board of the Stock Exchange announced since 1 January 2017 and up to the Latest Practicable Date, excluding privatisation proposals which were not or are yet to be approved (or, where applicable, required acceptance level were not or yet to be achieved) or without a pure cash cancellation consideration (the “**Privatisation Precedents**”), which represent an exhaustive list of privatisation proposals we were able to identify from the Stock Exchange’s website satisfying the above selection criteria. We selected the Privatisation Precedents in a period of over three years, which is considered sufficient to reflect the pricings of successful privatisation proposals across different business cycles. The Privatisation Precedents were conducted by way of scheme of arrangement or general offer with a view to privatise the relevant company and therefore the Privatisation Precedents are, in our view, comparable to the Proposal. The table below illustrates the premiums or discounts represented by the offer or cancellation consideration over or to the respective last trading day, 10-, 30-, 60-, 90- and 180-trading day (up to and including the last trading day) average share prices and latest NAV per share in respect of such privatisation proposals, respectively. The Privatisation Precedents set out below provide, in our view, a comparison between the cancellation price and the then prevailing market prices and NAV per share of successful privatisation proposals, although the business nature and scale of each company vary and some aspects of pricing may be industry-specific.

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**LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

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**Premium/(Discount) of offer or cancellation price over/(to) the average share price and NAV per share prior to the announcement of privatisation proposal**

Date of initial announcement	Company (Stock code)	Last trading day <sup>(1)</sup> (%)	10 trading days <sup>(1)</sup> (%)	30 trading days <sup>(1)</sup> (%)	60 trading days <sup>(1)</sup> (%)	90 trading days <sup>(1)</sup> (%)	180 trading days <sup>(1)</sup> (%)	Premium/(Discount) of NAV per share <sup>(1)(2)</sup> (%)
21-Jun-20	China Baofeng (International) Limited (3966)	27.5	61.9	52.3	42.5	38.9	30.7	(5.5)
20-Apr-20	Allied Properties (H.K.) Limited (56)	34.3	40.2	39.1	33.3	29.7	23.1	(66.3)
3-Apr-20	Elec & Eltek International Company Limited (1151)	70.5	46.8	41.5	41.1	45.0	54.4	3.1
20-Mar-20	Li & Fung Limited (494)	150.0	135.9	95.2	72.7	62.1	43.8	8.2
20-Jan-20	BBI Life Sciences Corporation (1035)	16.3	31.4	42.5	46.1	47.9	56.7	98.9
12-Dec-19	Joyce Boutique Group Limited (647)	91.8	100.0	82.2	62.7	47.4	32.2	19.9
27-Nov-19	China Agri-Industries Holdings Limited (606)	34.1	40.9	53.2	64.7	72.5	70.0	(22.8)
1-Nov-19	Springland International Holdings Limited (1700)	63.1	64.4	56.8	55.4	53.3	48.6	(18.1)
20-Oct-19	Dah Chong Hong Holdings Limited (1828)	37.6	42.3	54.8	56.1	54.2	41.2	(28.2)
2-Oct-19	AVIC International Holdings Limited (161)	29.1	58.1	81.3	88.6	100.0	92.1	18.4
2-Sept-19 <sup>(3)</sup>	Huaneng Renewables Corporation Limited (958)	46.1	56.2	55.4	51.0	51.0	45.4	(4.5)
12-Aug-19	TPV Technology Limited (903)	41.4	50.8	54.5	74.7	87.4	138.8	(24.8)
27-Jun-19	Asia Satellite Telecommunications Holdings Ltd. (1135)	23.4	33.4	44.4	50.4	56.5	71.0	10.0
18-Jun-19	C.P. Lotus Corporation (121)	10.0	12.0	29.4	30.3	26.5	21.9	57.1
3-May-19 <sup>(3)</sup>	China Automation Group Limited (569)	24.0	36.4	47.1	47.1	47.1	42.9	27.9
4-Apr-19	China Hengshi Foundation Company Ltd. (1197)	10.6	16.8	17.4	19.1	24.4	27.6	42.1

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**LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

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Date of initial announcement	Company (Stock code)	Last trading day <sup>(1)</sup> (%)	10 trading days <sup>(1)</sup> (%)	30 trading days <sup>(1)</sup> (%)	60 trading days <sup>(1)</sup> (%)	90 trading days <sup>(1)</sup> (%)	180 trading days <sup>(1)</sup> (%)	Premium/ (Discount) of NAV per share <sup>(1)(2)</sup> (%)
28-Mar-19	China Power Clean Energy Development Company Ltd. (735)	41.9	60.8	78.1	94.0	101.9	88.6	(35.1)
5-Dec-18	Hopewell Holdings Limited (54)	46.7	51.6	55.5	54.1	49.6	43.7	(35.6)
30-Oct-18	Advanced Semiconductor Manufacturing Corporation Limited (3355)	66.7	97.4	100.0	92.3	89.9	85.2	89.9
27-Sep-18	Sinotrans Shipping Ltd. (368)	50.0	54.3	42.9	37.8	32.4	28.0	(25.2)
10-Jun-18	Hong Kong Aircraft Engineering Company Limited (44)	63.2	65.1	62.4	60.3	57.0	50.0	99.3
7-Jun-18	Portico International Holdings Ltd. (589)	50.2	53.0	49.1	45.4	45.9	49.6	(9.9)
10-Nov-17	Welling Holding Ltd. (382)	30.4	30.4	33.8	35.5	28.8	22.6	22.6
3-Jul-17	China Assets (Holdings) Limited (170)	61.5	73.9	76.6	77.1	76.6	73.9	(53.8)
19-Jun-17	Bloomage BioTechnology Corporation Limited (963)	14.0	23.4	24.4	30.3	33.7	32.5	215.3
29-May-17	China Metal International Holdings Inc. (319)	27.5	26.5	25.9	22.9	24.4	18.5	27.5
28-Apr-17	Belle International Holdings Ltd. (1880)	19.5	23.5	21.4	23.1	28.3	26.5	75.5
20-Apr-17	TCC International Holdings Limited (1136)	38.5	42.9	51.3	66.7	76.5	88.5	(4.0)
29-Mar-17	Goldin Properties Holdings Limited (283)	14.2	31.4	33.7	31.4	33.3	44.0	101.3
7-Mar-17	Yingde Gases Group Company Limited (2168)	(3.5)	8.1	20.0	45.6	57.1	74.9	46.7
10-Jan-17	Intime Retail (Group) Company Limited (1833)	42.3	47.9	51.8	53.6	52.7	53.6	60.9

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Date of initial announcement	Company (Stock code)	Last trading day <sup>(1)</sup> (%)	10 trading days <sup>(1)</sup> (%)	30 trading days <sup>(1)</sup> (%)	60 trading days <sup>(1)</sup> (%)	90 trading days <sup>(1)</sup> (%)	180 trading days <sup>(1)</sup> (%)	Premium/ (Discount) of NAV per share <sup>(1)(2)</sup> (%)
	Average	41.1	49.0	50.8	51.8	52.6	52.3	22.3
	Maximum	150.0	135.9	100.0	94.0	101.9	138.3	215.3
	Minimum	(3.5)	8.1	17.4	19.1	24.4	18.5	(66.3)
Cancellation Price	HK\$6.50 per Scheme Share	23.6	25.7	24.6	28.0	34.3	43.2	126.5 <sup>(4)</sup>

Source: Bloomberg and the Stock Exchange website

Notes:

1. Unless otherwise stated, the above percentages are calculated based on the closing share price on or up to and including the last trading day prior to the publication of the Rule 3.5 announcement or Rule 3.7 announcement (where applicable) and they are subject to round differences.
2. It represents the premium/(discount) of offer or cancellation price over or (to) the NAV per share quoted from the respective privatisation documents without taking into account any adjustments arising from, amongst other, revaluation of properties set out therein.
3. Date of Rule 3.7 announcement.
4. Premium of the Cancellation Price over the NAV attributable to Shareholders per Share of approximately HK\$2.87 as at 30 June 2020 was approximately 126.5%.

(a) *Premiums over the prevailing share price*

The premiums/(discount) of the above Privatisation Precedents ranged from (3.5)% to 150.0%, 8.1% to 135.9%, 17.4% to 100.0%, 19.1% to 9.4%, 24.4% to 101.9% and 18.5% to 138.3% over/(to) their respective average share prices on/over last trading day, 10-, 30-, 60-, 90- and 180-trading day (up to and including the last trading day) with average premiums of 41.1%, 49.0%, 50.8%, 51.8%, 52.6% and 52.3%, respectively.

The premiums offered by the Cancellation Price over the Last Trading Day, 10-, 30-, 60-, 90- and 180-trading day (up to and including the Last Trading Day) average Share price are 23.6%, 25.7%, 24.6%, 28.0%, 34.3% and 43.2%, respectively. Although the aforesaid premiums are lower than the respective average premiums but they are within the range of the respective premiums represented by the Privatisation Precedents.

(b) *Discount to the NAV per Share*

The Cancellation Price of HK\$6.50 per Scheme Share represents premiums of approximately 130.5% and 126.5% over the NAV per Share of approximately HK\$2.82 and approximately HK\$2.87 as at 31 December 2019 and 30 June 2020 respectively.

From the Privatisation Precedents, we have observed a wide range of the cancellation consideration as compared with the respective NAV ranging from a discount of 66.3% to a premium of 215.3%. Out of the 31 Privatisation Precedents, the cancellation consideration in 18 cases represent premiums ranging from 3.1% to 215.3% over the respective NAV per share and 13 cases represent a discount ranging from 4.0% to 66.3% to the respective NAV per share.

## V. DISCUSSION AND ANALYSIS

In forming our opinion and recommendation below, we have taken into account the factors set out under the section headed “Principal factors and reasons considered” above as a whole. We would like to draw the attention of the Scheme Shareholders in particular to the points summarised below:

### (1) **Premium over market price**

The realisable value of the Shareholders’ investment in the Company depends on the Share price, particularly when the Company has paid little or no dividend in recent years. One of the most important factors when assessing the fairness of the Cancellation Price has been the premium of the Cancellation Price over recent Share prices, which is substantial. The Cancellation Price is higher than the closing Share prices in all trading days during the Share Price Review Period of over one and a half year. Based on the discussion as set out in the section headed “4. *Analysis of Share price – (c) Historical Share price performance and NAV per Share compared to the Cancellation Price of HK\$6.50 per Scheme Share*” above, the Cancellation Price compares favourably to the closing Share prices, with a range of premium of approximately 23.6% to 43.2% over different periods before the Last Trading Day. Furthermore, based on our review the Share price performance since the listing of the Shares on the Stock Exchange in 2010, it is noteworthy that the Share price had only been higher than the Cancellation Price of HK\$6.50 per Scheme Share for a short period of time in 2017.

The Proposal is to be implemented at the Cancellation Price of HK\$6.50 per Scheme Share in cash. The Company will not increase the Cancellation Price for the Proposal and does not reserve the right to increase the Cancellation Price. If the Proposal fails, the Company cannot in normal circumstances put forward another such proposal for at least twelve months.

**(2) Declining financial performance**

The Group is principally engaged in the design, manufacturing and sales of optical networking products for the high-speed telecommunications and data communications systems as well as machine vision systems and sensors for smart manufacturing market. The operations of the Group consist of two major businesses, namely the Optical Networking Business and the Industrial and Sensing Businesses. The Optical Networking Business is the core business of the Group as it accounted for a significant majority of the Group's revenue in the recent past.

The financial performance of the Group has been satisfactory and the revenue of the Group has grown by over 20% each year until 2018. However, the revenue has only increased by approximately 2.6% for the year ended 31 December 2019 as the largest customer of the Group experienced a reduced market share among telecommunication operators. Furthermore, the gross margin of the Group squeezed in 2019 to approximately 29.1%, which was below the 30-plus percentages achieved in prior years, as a result of, among other things, the drop of gross profit of EDFA in the Optical Networking Business due to the lower demand and weak demand in certain segments of the Industrial and Sensing Businesses. Coupled with escalated costs for selling and marketing, R&D as well as administration, the net profit of the Group attributable to the Shareholders has slashed by over one half to approximately HK\$117.4 million for the year ended 31 December 2019 as compared to that in prior year. The net profit margin, being the net profit attributable to the Shareholders divided by revenue, has alarmingly declined to only 4.5% for the year ended 31 December 2019, as compared with that of over 10% for the years ended 31 December 2018 and 2017.

The financial performance for the six months ended 30 June 2020 continued in a downward trend with the net profit attributable to the Shareholders slashed by almost half to approximately HK\$42.8 million from approximately HK\$83.1 million for the corresponding period in 2019. The significant decline was mainly due to higher cost of sales arising from, among other things, disruption of industry supply chains triggered by the outbreak of the COVID-19 pandemic. As a result, both the gross profit margin and the net profit margin for the first half of 2020 squeezed to approximately 25.0% and approximately 2.9% respectively, representing considerable decreases as compared to those of approximately 29.5% and approximately 5.9% for the corresponding period in 2019.

**(3) Industry outlook remains challenging**

Given the historical rising trend of the global data usage and the potential increases in both the number of internet users and the amount of data created per user, there is no doubt that the global demand for data transmission and hence the demand for the optical communication products will grow in long run.

Having said that, there are a number of challenges in the operating environment of the Group in the short and medium term. In particular, the largest customer of the Group saw a shrinking market share in the industry since the second half of 2019 and a key Chinese customer of the Group also faced setback in their business after the ban from participating in the development of the 5G telecommunication network in certain important overseas markets including the United States and the United Kingdom. Also, the Company's overseas markets are also susceptible to similar trade tensions depending on the future evolution of China US dynamics in trade as well as other aspects. Furthermore, the outbreak of the COVID-19 pandemic has resulted in significant economic contraction worldwide and the uncertain economic outlook might hinder the commitment in capital expenditure among global telecommunication operators. Moreover, the pandemic caused supply shock in the industry where the Group operates as some of the raw materials were less accessible to the Group. Last but not least, higher production cost is expected in respond to the precautionary measures for labour force protection. All the aforesaid factors may eventually have a negative impact on the financial performance of the Group in short and medium term of the future. Accordingly, there remains a significant uncertainty on the prospect of the Group in the short and medium term.

**(4) The Scheme presents a good opportunity to realise the Shares given the low trading volume**

Since the beginning of 2019 and up to the release of the Joint Announcement, we are of the view that the liquidity of the Shares was generally low. There were surges in trading volume recorded during (i) the first half of 2020 (except for February 2020) which was generally in line with the increase in turnover of the Hong Kong stock market; and (ii) in July 2020 following the release of the Joint Announcement. Otherwise, we are however of the view that the Shares cannot be regarded as having been actively traded. Accordingly, the Proposal provides an exit opportunity for the Scheme Shareholders (especially those with relatively sizeable shareholdings) who would like to realise their investments in the Shares at a fixed cash price without disturbing the market price.

**(5) The Cancellation Price represents a premium over NAV per Share and it is higher than the historical premium during the Share Price Review Period**

The Cancellation Price represents premiums of approximately 130.5% and 126.5% over the NAV per Share of HK\$2.82 and HK\$2.87 as at 31 December 2019 and 30 June 2020 respectively. Such premiums have been consistently higher than the premiums over NAV attributable to the Shareholders per Share, ranging from approximately 29.2% to approximately 93.5% during the Pre-Announcement Period. The premium of the closing Share price over the NAV per Share narrowed after the Company issued the Joint Announcement, in our view, may not be sustainable at the current level if the Proposal and the Scheme lapse.

**(6) Cross check against the Comparable Companies**

The Cancellation Price of HK\$6.50 per Scheme Share represents a PER of 70.4 times (based on the net profit attributable to the Shareholders for the trailing 12 months), which is higher than both the average and median of that of the four Comparable Companies of approximately 36.8 times and 38.4 times as at the Latest Practicable Date. Similarly, the implied PBR of the Cancellation Price of approximately 2.3 times is higher than the range of the PBRs of the Comparable Companies from approximately 0.4 times to approximately 1.8 times and the average and median of the PBRs of the Comparable Companies of approximately 1.2 times and approximately 1.4 times respectively. Both ratios indicate that the Cancellation Price compares favourably against pricing of the Comparable Companies in general.

The Company has paid dividend only once in the last few years. As the Company had not paid any dividend in the last twelve months, the dividend yield implied by the Cancellation Price was nil, as compared to the average of the Comparable Companies of approximately 1.4%. On this basis, the Disinterested Shareholders may, if they wish, reinvest the proceeds from the Proposal in the Comparable Companies or other listed Hong Kong companies to achieve a higher yield.

**(7) Privatisation Precedents**

The premiums offered by the Cancellation Price over the Last Trading Day and the 10-, 30-, 60-, 90- and 180-trading day (up to and including the Last Trading Day) average Share price are 23.6%, 25.7%, 24.6%, 28.0%, 34.3% and 43.2%, respectively. These premiums are lower than the respective average premiums, which may be due to the surge of the Share price in the last few months prior to the Joint Announcement. Nevertheless, the aforesaid premiums offered by the Cancellation Price are still within the range of the premiums of the Privatisation Precedents, which represent all privatisation proposals approved or accepted by the independent shareholders of the relevant company.

The Cancellation Price of HK\$6.50 per Scheme Share represents a premium of approximately 130.5% and 126.5% over the NAV per Share as at 31 December 2019 and 30 June 2020 of approximately HK\$2.82 and approximately HK\$2.87. The Privatisation Precedents show a very wide range, from a discount of approximately 66.3% to a premium of approximately 215.3% over NAV per share. The wide range of premiums over and discounts to the NAV per share across the Privatisation Precedents as mentioned above, in our view, suggests that no concrete conclusion can be drawn from the comparison between their cancellation price and their respective NAV per share. In addition, none of the Privatisation Precedents engaged in the same business as those of the Group. Hence, the comparison of cancellation consideration to the NAV in the Privatisation Precedents, in our view, may not be of immediate relevance to our analysis.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### VI. OPINION AND RECOMMENDATION

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

The closing Share price at the Latest Practicable Date was HK\$6.29 per Share, below the Cancellation Price of HK\$6.50 per Scheme Share. However, there is still a possibility, not in our view likely, that the Share price may exceed the Cancellation Price in the period up to 5 October 2020, being the expected last day for trading in the Shares on the Stock Exchange. Accordingly, the Disinterested Shareholders are reminded to monitor the trading price and liquidity of the Shares during this period and, having regard to their own circumstances, consider selling their Shares in the open market, if the net proceeds obtained from such disposal of the Shares (after deducting all transaction costs) would be higher than the net proceeds expected to be received under the Scheme.

Yours faithfully,  
for and on behalf of  
**SOMERLEY CAPITAL LIMITED**  
**Danny Cheng**  
*Director*

*Mr. Danny Cheng is a licensed person registered with the SFC and a responsible officer of Somerley Capital Limited, who is licensed under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities. He has over 15 years of experience in the corporate finance industry.*

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## EXPLANATORY STATEMENT

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*This Explanatory Statement constitutes the statement required under Order 102, rule 20(4)(e) of the Rules of the Grand Court of the Cayman Islands 1995 (revised).*

### 1. INTRODUCTION

Reference is made to the Joint Announcement and the announcement dated 14 July 2020 jointly issued by the Offeror and the Company in relation to the Proposal.

On 8 July 2020, the Offeror requested the Board to put forward to the Scheme Shareholders the Proposal for the privatisation of the Company by way of the Scheme, being a scheme of arrangement under Section 86 of the Companies Law.

The purpose of this Explanatory Statement is to explain the terms and effects of the Proposal and, specifically, to provide the Scheme Shareholders with additional information in relation to the Scheme.

### 2. TERMS OF THE PROPOSAL

If the Proposal is approved and implemented:

- (a) the Scheme Shares held by the Scheme Shareholders (excluding the Mr. Na Related Shareholders and Kaifa) will be cancelled and extinguished on the Effective Date in exchange for the payment of the Cancellation Price of HK\$6.50 in cash for each Scheme Share;
- (b) the 287,710,833 Scheme Shares held by the Mr. Na Related Shareholders will be cancelled and extinguished on the Effective Date in exchange for the Mr. Na Related Shareholders Cancellation Consideration, which consists of the crediting of 287,710,833 unpaid Offeror Shares (representing 46.05% of the Offeror Shares in issue) out of the 513,676,233 unpaid Offeror Shares (representing 82.21% of the Offeror Shares in issue) held by Optical Alpha as fully paid at the Cancellation Price per Offeror Share and in turn, the crediting of the unpaid Optical Alpha Shares held by the Mr. Na Related Shareholders as fully paid at the Cancellation Price per Optical Alpha Share;
- (c) the 171,121,237 Scheme Shares held by Kaifa will be cancelled and extinguished on the Effective Date in exchange for the Kaifa Cancellation Consideration, pursuant to which (i) 60,000,000 Scheme Shares out of the 171,121,237 Scheme Shares held by Kaifa will be cancelled and extinguished in consideration for cash at the Cancellation Price; and (ii) 111,121,237 Scheme Shares out of the 171,121,237 Scheme Shares held by Kaifa will be cancelled and extinguished in consideration for the crediting of the unpaid Offeror Shares held by Kaifa in the Offeror (representing 17.79% of the Offeror Shares in issue) as fully paid at the Cancellation Price per Offeror Share;

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## EXPLANATORY STATEMENT

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- (d) pursuant to paragraphs (a) to (c) above, the issued share capital of the Company will be reduced by cancelling and extinguishing the Scheme Shares, and upon such reduction, the issued share capital of the Company will be increased to its former amount by the issuance at par to the Offeror, credited as fully paid, of the aggregate number of Shares as is equal to the number of Scheme Shares cancelled and extinguished on the Effective Date. The reserve created in the Company's books of account as a result of the capital reduction will be applied in paying up in full at par the new Shares so issued, credited as fully paid, to the Offeror. The Company will accordingly become a wholly-owned subsidiary of the Offeror on the Effective Date; and
- (e) the listing of the Shares on the Stock Exchange will be withdrawn with effect after the Effective Date.

### Cancellation Price

Under the Scheme, the Cancellation Price will be in the amount of HK\$6.50 per Scheme Share payable by the Offeror to the Scheme Shareholders in the form of (i) the Cash Cancellation Consideration in respect of the Scheme Shareholders (excluding the Mr. Na Related Shareholders and Kaifa); or (ii) the Mr. Na Related Shareholders Cancellation Consideration in respect of the Mr. Na Related Shareholders; or (iii) the Kaifa Cancellation Consideration in respect of Kaifa.

**The Cancellation Price will not be increased and the Offeror does not reserve the right to do so. Shareholders and potential investors of the Company should be aware that, following the making of this statement, the Offeror will not be allowed to increase the Cancellation Price.**

### Comparison of value

The Cancellation Price of HK\$6.50 in cash for every Scheme Share cancelled and extinguished under the Scheme represents:

- a premium of approximately 3.34% over the closing price of HK\$6.29 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- a premium of approximately 23.57% over the closing price of HK\$5.26 per Share as quoted on the Stock Exchange on the Last Trading Day;
- a premium of approximately 24.66% over the average closing price of approximately HK\$5.21 per Share based on the daily closing prices as quoted on the Stock Exchange for the 5 trading days up to and including the Last Trading Day;
- a premium of approximately 25.68% over the average closing price of approximately HK\$5.17 per Share based on the daily closing prices as quoted on the Stock Exchange for the 10 trading days up to and including the Last Trading Day;

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## EXPLANATORY STATEMENT

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- a premium of approximately 24.56% over the average closing price of approximately HK\$5.22 per Share based on the daily closing prices as quoted on the Stock Exchange for the 30 trading days up to and including the Last Trading Day;
- a premium of approximately 34.26% over the average closing price of approximately HK\$4.84 per Share based on the daily closing prices as quoted on the Stock Exchange for the 90 trading days up to and including the Last Trading Day;
- a premium of approximately 43.18% over the average closing price of approximately HK\$4.54 per Share based on the daily closing prices as quoted on the Stock Exchange for the 180 trading days up to and including the Last Trading Day;
- a premium of approximately 19.27% over the 52-week closing high of HK\$5.45 per Share as quoted on the Stock Exchange; and
- a premium of approximately 128.85% over the audited net asset value per Share attributable to the Shareholders of approximately HK\$2.84 as at 31 December 2019.

The Cancellation Price has been determined on a commercial basis after taking into account, among other things, the prices of the Shares traded on the Stock Exchange, and with reference to the 2019 trading multiples of comparable companies selected based on the stock exchange on which their shares are traded (i.e. the Stock Exchange), the similarity between their products (e.g. splitters, couplers and optical transceivers) and the Group's and their stock liquidity profiles.

### 3. CONDITIONS TO THE PROPOSAL

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

- (a) the approval of the Scheme (by way of poll) by a majority in number of the Disinterested Shareholders representing not less than 75% in value of the Shares held by the Disinterested Shareholders, present and voting either in person or by proxy at the Court Meeting, provided that:
  - (i) the Scheme is approved (by way of poll) by the Disinterested Shareholders holding at least 75% of the votes attaching to the Shares held by the Disinterested Shareholders that are voted either in person or by proxy at the Court Meeting; and
  - (ii) the number of votes cast (by way of poll) by the Disinterested Shareholders present and voting either in person or by proxy at the Court Meeting against the resolution to approve the Scheme at the Court Meeting is not more than 10% of the votes attaching to all the Shares held by all the Disinterested Shareholders;

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## EXPLANATORY STATEMENT

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- (b) (i) the passing of a special resolution by a majority of not less than three-fourths of the votes cast by the Shareholders present and voting in person or by proxy at the EGM to approve and give effect to the reduction of the number of issued Shares in the share capital of the Company by cancelling and extinguishing the Scheme Shares; and (ii) the passing of an ordinary resolution by a simple majority of the votes cast by the Shareholders present and voting in person or by proxy at the EGM to immediately thereafter increase the issued Shares to the amount prior to the cancellation and extinguishment of the Scheme Shares and apply the reserve created as a result of the aforesaid cancellation and extinguishment of the Scheme Shares to pay up in full at par such number of new Shares as is equal to the number of Scheme Shares cancelled and extinguished as a result of the Scheme, credited as fully paid, for issuance to the Offeror;
- (c) the Grand Court's sanction of the Scheme (with or without modifications) and, to the extent necessary, its confirmation of the reduction of the number of issued Shares in the share capital of the Company, and the delivery to the Registrar of Companies in the Cayman Islands of a copy of the order of the Grand Court for registration;
- (d) compliance, to the extent necessary, with the procedural requirements and conditions, if any, under Sections 15 and 16 of the Companies Law in relation to the reduction of the number of issued Shares in the share capital of the Company;
- (e) approval of the Consortium Agreement and transactions contemplated thereunder by shareholders of Shenzhen Kaifa, the holding company of Kaifa, in accordance with the Rules Governing the Listing of Securities on the Shenzhen Stock Exchange having been obtained;
- (f) all necessary Authorisations which are material in the context of the Group taken as a whole and other registrations, filings, rulings, consents, opinions, permissions and approvals in connection with the Proposal having been obtained from, given by or made with (as the case may be) the Relevant Authorities, in the Cayman Islands, Hong Kong and any other relevant jurisdictions;
- (g) all necessary Authorisations, registrations, filings, rulings, consents, opinions, permissions and approvals in connection with the Proposal under sub-paragraph (f) above remaining in full force and effect without variation, and all necessary statutory or regulatory obligations in all relevant jurisdictions having been complied with, and no requirement having been imposed by any Relevant Authorities which is not expressly provided for, or is in addition to requirements expressly provided for, in relevant laws, rules, regulations or codes in connection with the Proposal or any matters, documents (including circulars) or things relating thereto and which is material and adverse in the context of the Proposal or the Group taken as a whole, in each aforesaid case up to and at the time when the Scheme becomes effective; and

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## EXPLANATORY STATEMENT

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- (h) all necessary consents which may be required for the implementation of the Proposal and the Scheme under any existing contractual obligations of the Company being obtained or waived by the relevant party(ies), where any failure to obtain such consent or waiver would have a material adverse effect on the business of the Group.

With reference to Condition (e), the Consortium Agreement and transactions contemplated thereunder had been approved by shareholders of Shenzhen Kaifa, the holding company of Kaifa, in accordance with the Rules Governing the Listing of Securities on the Shenzhen Stock Exchange on 24 July 2020. Accordingly, Condition (e) had been satisfied as at the Latest Practicable Date. For details, please refer to the 24 July 2020 Announcement.

With reference to Conditions (f), (g) and (h), as at the Latest Practicable Date, the Offeror and the Company are not aware of any requirement for such Authorisations, registrations, filings, rulings, consents, opinions, permissions and approvals other than those set out in Conditions (a) to (e).

The Offeror reserves the right to waive Conditions (f), (g) and (h) either in whole or in part, either generally or in respect of any particular matter. Conditions (a), (b), (c), (d) and (e) cannot be waived in any event. The Company has no right to waive any of the Conditions. All of the above Conditions will have to be fulfilled or waived, as applicable, on or before the Long Stop Date, failing which the Proposal and the Scheme will lapse.

Pursuant to Note 2 to Rule 30.1 of the Takeovers Code, the Offeror may only invoke any or all of the Conditions as a basis for not proceeding with the Scheme if the circumstances which give rise to the right to invoke any such Condition are of material significance to the Offeror in the context of the Proposal.

If the Conditions are satisfied or validly waived (as applicable), the Scheme will be binding on all Scheme Shareholders, irrespective of whether or not they attended or voted at the Court Meeting or the EGM. An announcement will be made by the Company and the Offeror in relation to the results of the Court Meeting and the EGM no later than 7:00 p.m. on Wednesday, 30 September 2020 and, if all the resolutions are passed at those meetings, further announcements will be made in relation to, among other things, the results of the hearing of the petition for the sanction of the Scheme by the Court, the Effective Date and the date of withdrawal of listing of Shares from the Stock Exchange in accordance with the requirements of the Takeovers Code and the Listing Rules.

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

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## EXPLANATORY STATEMENT

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### 4. CONSORTIUM AGREEMENT

On 7 July 2020, the Offeror, Optical Alpha, Mr. Na, the Mr. Na Related Shareholders, the Equity Investor, the Subscription Investor and Kaifa entered into the Consortium Agreement and formed the Offeror Consortium for the purpose of the Proposal. Pursuant to the Consortium Agreement, among other things:

- (a) they agreed that all material actions and decisions relating to the Proposal will be jointly led and made by the Mr. Na Related Shareholders;
- (b) each of the Mr. Na Related Shareholders has irrevocably undertaken and agreed to the cancellation and extinguishment of their respective Scheme Shares (which in aggregate consist of 287,710,833 Scheme Shares) under the Scheme in consideration for the Mr. Na Related Shareholders Cancellation Consideration;
- (c) Kaifa has irrevocably undertaken and agreed to the cancellation and extinguishment of its 171,121,237 Scheme Shares under the Scheme in consideration for the Kaifa Cancellation Consideration;
- (d) each of the Mr. Na Related Shareholders and Kaifa has irrevocably undertaken and agreed that:
  - (i) to the extent permitted under applicable laws, it will vote in favour of the resolutions to be proposed at the EGM to approve and give effect to the reduction of the number of issued Shares in the share capital of the Company and any resolutions proposed at the EGM to assist the implementation of the Scheme or are necessary for the Scheme to become effective, and to otherwise support the Scheme and provide such undertakings to the Grand Court as are appropriate and necessary for the Scheme to be approved;
  - (ii) it shall not, during the term of the Consortium Agreement and other than in connection with the Proposal: (1) sell, transfer, charge, encumber, create or grant any option or lien over or otherwise dispose of (or permit any such action to occur in respect of) all or any of its Shares or any interest therein; (2) accept or give any undertaking to accept any other offer, merger or other business combination in respect of the Shares; or (3) purchase or acquire any Shares other than with the consent of the Offeror; and
  - (iii) it shall not, except to the extent required under the Takeovers Code, the Listing Rules or any applicable laws, take any action which may have the effect of delaying, disrupting or otherwise causing the Scheme not to become effective at the earliest practicable time or at all, or which is or may be prejudicial to the success of the Scheme;

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## EXPLANATORY STATEMENT

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- (e) to compensate Mr. Na for the risks that he has undertaken in providing a personal guarantee to secure the Optical Alpha Acquisition Financing and the Offeror Acquisition Financing, (i) the Equity Investor agreed that 7,437,813 unpaid Optical Alpha Shares subscribed by the Equity Investor at the Cancellation Price under the Offshore Subscription Agreement (representing 1.85% of the enlarged issued share capital of Optical Alpha upon completion of the Offshore Subscription Agreement and as at the Latest Practicable Date, and 1.45% of the enlarged issued share capital of Optical Alpha upon completion of the Onshore Subscription Agreement) shall be issued by Optical Alpha to Mandarin Assets, a company wholly-owned by Mr. Na, in its stead (i.e. the Mandarin Assets Arrangement Part I); and (ii) the Subscription Investor agreed that 7,349,467 Optical Alpha Shares subscribed by the Subscription Investor at the Cancellation Price under the Onshore Subscription Agreement (representing 1.43% of the enlarged issued share capital of Optical Alpha upon completion of the Onshore Subscription Agreement) shall be issued by Optical Alpha to Mandarin Assets in its stead (i.e. the Mandarin Assets Arrangement Part II).

The Mandarin Assets Arrangement Part I had been completed and 7,437,813 unpaid Optical Alpha Shares subscribed by the Equity Investor at the Cancellation Price had been issued to Mandarin Assets. These 7,437,813 unpaid Optical Alpha Shares issued to Mandarin Assets are currently expected to be credited as fully paid upon payment of the subscription price by the Equity Investor in respect of such Optical Alpha Shares in accordance with the terms of the Offshore Subscription Agreement.

The Mandarin Assets Arrangement Part II is expected to be completed at the same time as the completion of the Onshore Subscription Agreement.

For the avoidance of doubt, none of the 7,437,813 Optical Alpha Shares issued to Mandarin Assets pursuant to the Mandarin Assets Arrangement Part I and the 7,349,467 Optical Alpha Shares to be issued to Mandarin Assets pursuant to the Mandarin Assets Arrangement Part II form part of the unpaid Optical Alpha Shares held by Mandarin Assets which are intended to be credited as fully paid pursuant to the Mr. Na Related Shareholders Cancellation Consideration.

The Consortium Agreement shall terminate in accordance with its terms upon the earlier of, among others:

- (i) the Conditions not having been fulfilled or waived (as the case may be) by the Long Stop Date;
- (ii) withdrawal or lapse of the Scheme in accordance with the Takeovers Code;
- (iii) the date on which the consideration payable by the Offeror in respect of the Scheme is settled in full in accordance with the Scheme Document; or

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## EXPLANATORY STATEMENT

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- (iv) expiry of the exclusivity period of the Consortium Agreement or such other date as the relevant parties to the Consortium Agreement otherwise agree in writing. The exclusivity period of the Consortium Agreement has commenced on the date of the Consortium Agreement (i.e. 7 July 2020) and will end on the earlier of (i) the date which is 18 months after the date of the Consortium Agreement, which may be extended as agreed by all parties to the Consortium Agreement in writing; (ii) the termination of the Consortium Agreement pursuant to the terms thereof; (iii) the completion of the Proposal (being the date on which the Cancellation Consideration having been settled in full in accordance with the Scheme Document); and (iv) six months after the date of the Consortium Agreement if the announcement to be published pursuant to Rule 3.5 of the Takeovers Code in respect of the Proposal is not made within six months following the date of the Consortium Agreement.

### 5. AGREEMENTS RELATING TO OPTICAL ALPHA AND THE OFFEROR

Optical Alpha and the Offeror are investment vehicles through which members of the Offeror Consortium intend to hold their respective investments in the Group after completion of the Proposal, and were formed for the purpose of implementing the Proposal.

As the Mr. Na Related Shareholders, Kaifa, the Equity Investor and the Subscription Investor intended to finance the Proposal through making equity investments (whether by way of cash or in-kind contributions) in Optical Alpha and the Offeror, (i) Optical Alpha, the Mr. Na Related Shareholders and the Equity Investor entered into the Offshore Subscription Agreement on 6 July 2020 for the subscriptions of Optical Alpha Shares by the Mr. Na Related Shareholders and the Equity Investor; (ii) Optical Alpha, the Mr. Na Related Shareholders, the Equity Investor and the Subscription Investor entered into the Onshore Subscription Agreement on 6 July 2020 for the subscription of Optical Alpha Shares by the Subscription Investor; and (iii) the Offeror, Optical Alpha and Kaifa entered into the Offeror Subscription Agreement on 7 July 2020 for the subscriptions of Offeror Shares by Optical Alpha and Kaifa.

The Offshore Subscription Agreement had been completed, pursuant to which unpaid Optical Alpha Shares had been issued to the Mr. Na Related Shareholders and the Equity Investor, which are intended to be credited as fully paid (i) (in respect of the Mr. Na Related Shareholders) pursuant to the Mr. Na Related Shareholders Cancellation Consideration upon the Scheme becoming effective; and (ii) (in respect of the Equity Investor) upon settlement of the relevant subscription price in cash by the Equity Investor (which is intended to be funded by an irrevocable standby letter of credit issued by Silicon Valley Bank made available to Optical Alpha as the beneficiary, further details of which are set out in the section headed “9. Financial Resources” below) no later than the Business Day immediately following the date on which the Scheme is sanctioned (with or without modifications) by the Grand Court (or such other date as agreed between the Equity Investor and Optical Alpha). Upon completion of the Offshore Subscription Agreement, Optical Alpha had become owned as to approximately 3.16% by Mandarin Assets, 56.90% by O-Net BVI, 13.48% by O-Net SAPL and 26.46% by the Equity Investor. To govern their relationship in respect of Optical Alpha, the Mr. Na Related Shareholders and the Equity Investor (being the existing shareholders of Optical Alpha) entered into the Optical Alpha Shareholders’ Agreement with Optical Alpha on 6 July 2020.

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## EXPLANATORY STATEMENT

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Upon completion of the Onshore Subscription Agreement, it is expected that Optical Alpha will be owned as to approximately 3.90% by Mandarin Assets, 44.46% by O-Net BVI, 10.53% by O-Net SAPL, 20.68% by the Equity Investor and 20.43% by the Subscription Investor. Completion of the Onshore Subscription Agreement is subject to the fulfilment or waiver of its conditions precedent, which include, among others, obtaining of necessary approvals for the subscription of Optical Alpha Shares by the Subscription Investor, including but not limited to those in relation to overseas direct investment by the Subscription Investor (a company established in the PRC) in Optical Alpha (a business company incorporated in the BVI). It is currently expected that the Onshore Subscription Agreement may or may not complete by the Effective Date, depending on the progress of obtaining of such necessary approvals by the Subscription Investor. In light of the uncertainty about the timing by which the Onshore Subscription Agreement could be completed, the Subscription Investor agreed to first provide the Subscription Investor's Deposit, being a deposit in the amount of RMB660 million to be placed in an account designated by Optical Alpha, for the purpose of satisfying one of the conditions precedent for the drawdowns of the Offeror Acquisition Financing and the Optical Alpha Acquisition Financing. To ensure that the Subscription Investor's Deposit will be maintained at the designated account for the purpose of the drawdowns of the Offeror Acquisition Financing and the Optical Alpha Acquisition Financing to finance the payment of the Cancellation Consideration by the Offeror upon the Scheme becoming effective, the Subscription Investor's withdrawal of the Subscription Investor's Deposit from the designated account prior to the drawdown of the Offeror Acquisition Financing and the Optical Alpha Acquisition Financing is subject to, among others, the authorisation from CICC (as financial adviser to the Offeror) to the bank at which the designated account is maintained. In addition, the Subscription Investor has irrevocably and unconditionally undertaken to Optical Alpha not to withdraw the Subscription Investor's Deposit from the designated bank account during the agreed period under the Subscription Investor's Irrevocable Undertakings.

The Offeror Subscription Agreement had also been completed, pursuant to which unpaid Offeror Shares had been issued to Optical Alpha and Kaifa, which are intended to be credited as fully paid (i) (in respect of Optical Alpha) partly pursuant to the Mr. Na Related Shareholders Cancellation Consideration upon the Scheme becoming effective and partly upon settlement of the remaining subscription price in cash by Optical Alpha on the drawdown date of the Optical Alpha Acquisition Financing, currently anticipated to be within 2 Business Day after the Effective Date, (which is intended to be funded by (a) the subscription monies to be paid by the Equity Investor to Optical Alpha pursuant to the Offshore Subscription Agreement; and (b) proceeds from the Optical Alpha Acquisition Financing); and (ii) (in respect of Kaifa) pursuant to the Kaifa Cancellation Consideration upon the Scheme becoming effective. Upon completion of the Offeror Subscription Agreement, the Offeror had become owned as to approximately 82.21% by Optical Alpha and 17.79% by Kaifa.

For the shareholding structures of the Offeror and Optical Alpha upon (i) completion of the Proposal but before completion of the Onshore Subscription Agreement; and (ii) completion of both the Proposal and the Onshore Subscription Agreement, please refer to the relevant shareholding charts set out in the section headed "6. Shareholding Structure" in the Explanatory Statement on pages 98 to 103 of this Scheme Document.

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## EXPLANATORY STATEMENT

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Furthermore, for the payment of the fees and expenses incurred in relation to the Acquisition Financing, the Equity Investor provided a shareholder's loan in the amount of HK\$30 million to Optical Alpha under the Optical Alpha Shareholder's Loan Agreement dated 6 July 2020, and Optical Alpha provided a shareholder's loan in the amount of HK\$20 million to the Offeror under the Offeror Shareholder's Loan Agreement entered into on 7 July 2020.

Details of the aforementioned agreements entered into among members of the Offeror Consortium are set out below.

### **Optical Alpha**

#### *(A) Subscription Agreements*

##### 1. Offshore Subscription Agreement

On 6 July 2020, Optical Alpha, the Mr. Na Related Shareholders and the Equity Investor entered into the Offshore Subscription Agreement, pursuant to which, among others:

- (a) the Mr. Na Related Shareholders have agreed to subscribe for 287,710,833 unpaid Optical Alpha Shares at the Cancellation Price (i.e. HK\$1,870,120,414.50 in aggregate). The total subscription price of such subscription shall be settled pursuant to the Mr. Na Related Shareholders Cancellation Consideration; and
- (b) the Equity Investor has agreed to subscribe for 113,657,708 unpaid Optical Alpha Shares at the Cancellation Price (i.e. HK\$738,775,102 in aggregate), among which 7,437,813 unpaid Optical Alpha Shares shall be issued to Mandarin Assets in its stead pursuant to the Mandarin Assets Arrangement Part I. These 7,437,813 unpaid Optical Alpha Shares shall be credited as fully paid upon the settlement of the subscription price by the Equity Investor no later than the Business Day immediately following the date on which the Scheme is sanctioned (with or without modifications) by the Grand Court (or such other date as agreed between the Equity Investor and Optical Alpha).

The subscriptions by the Mr. Na Related Shareholders and the Equity Investor for Optical Alpha Shares under the Offshore Subscription Agreement had been completed and Optical Alpha had become owned as to approximately 3.16% by Mandarin Assets, 56.90% by O-Net BVI, 13.48% by O-Net SAPL and 26.46% by the Equity Investor.

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## EXPLANATORY STATEMENT

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### 2. Onshore Subscription Agreement

On 6 July 2020, Optical Alpha, the Mr. Na Related Shareholders, the Equity Investor and the Subscription Investor entered into the Onshore Subscription Agreement, pursuant to which, among others:

- (a) the Subscription Investor has agreed to subscribe for 112,307,692 Optical Alpha Shares at the Cancellation Price (i.e. approximately HK\$730 million, equivalent to RMB660 million in aggregate), among which 7,349,467 unpaid Optical Alpha Shares shall be issued to Mandarin Assets in its stead pursuant to the Mandarin Assets Arrangement Part II; and
- (b) the Subscription Investor has given the Subscription Investor's Irrevocable Undertakings, pursuant to which it has irrevocably and unconditionally undertaken to Optical Alpha that a sum of RMB660 million (corresponding to the agreed subscription price in paragraphs (a) above) will be deposited into a designated bank account upon signing of the Onshore Subscription Agreement and that such deposit shall not be withdrawn from the designated bank account until the earlier of (i) 31 March 2021 (or such later date as may be agreed between the Subscription Investor and Optical Alpha in writing); (ii) the date on which the Scheme is withdrawn or lapses in accordance of its terms and the Takeovers Code; (iii) the date on which the Onshore Subscription Agreement is terminated in accordance with its terms; or (iv) the date on which the Optical Alpha Acquisition Financing is terminated in accordance with the terms and conditions of the relevant facility agreement.

As at the Latest Practicable Date, the Subscription Investor's Deposit, being a sum of RMB660 million (equivalent to approximately HK\$730 million), had been deposited into the designated bank account pursuant to the Subscription Investor's Irrevocable Undertakings and the terms of the Onshore Subscription Agreement.

Upon completion of the Onshore Subscription Agreement, it is expected that Optical Alpha will be owned as to approximately 3.90% by Mandarin Assets, 44.46% by O-Net BVI, 10.53% by O-Net SAPL, 20.68% by the Equity Investor and 20.43% by the Subscription Investor. Completion of the Onshore Subscription Agreement is subject to its conditions precedent, including, among others, all necessary approvals from the relevant governmental, regulatory or other authorities, required for the subscription of Optical Alpha Shares by the Subscription Investor having been obtained. As at the Latest Practicable Date, the Onshore Subscription Agreement had not been completed. Depending on the progress of the obtaining of the abovementioned necessary approvals for the subscription of Optical Alpha Shares by the Subscription Investor, it is currently expected that the Onshore Subscription Agreement may complete prior to or after the Effective Date.

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## EXPLANATORY STATEMENT

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(B) *Optical Alpha Shareholders' Agreement*

On 6 July 2020, Optical Alpha, the Mr. Na Related Shareholders and the Equity Investor entered into the Optical Alpha Shareholders' Agreement in respect of the governance of Optical Alpha, which is intended to take full effect upon the Scheme becoming effective. The principal terms of the Optical Alpha Shareholders' Agreement are set out as follows:

- (a) **Board composition:** The board of Optical Alpha shall comprise three directors. Each of Mandarin Assets, O-Net BVI and the Equity Investor shall have the right to appoint one director.
- (b) **Reserved matters:** The board of Optical Alpha shall be responsible for the overall management of Optical Alpha, subject to certain reserved matters which require the prior written consents of shareholders of Optical Alpha holding an aggregate of not less than 80% of the issued shares of Optical Alpha.
- (c) **Right of first refusal and tag along:** The parties shall have the right to transfer their shares in Optical Alpha subject to first refusal and tag-along rights.
- (d) **Pre-emptive rights:** Any new issues of shares of Optical Alpha shall be subject to a right of pre-emption in favour of the shareholders to Optical Alpha (pro rata to their respective proportionate shareholding of the voting shares).
- (e) **Liquidation:** If the Company fails to withdraw listing from the Main Board of the Stock Exchange on or before 1 January 2022 (or such other date as the shareholders to Optical Alpha may agree in writing), the shareholders may approve to wind up Optical Alpha pursuant to the articles of association and the laws of the BVI.

(C) *Optical Alpha Shareholder's Loan Agreement*

On 6 July 2020, Optical Alpha and the Equity Investor entered into the Optical Alpha Shareholder's Loan Agreement pursuant to which the Equity Investor agreed to grant a shareholder's loan in the principal amount of HK\$30 million to Optical Alpha for the purpose of payment of fees and expenses as may be incurred in connection with the Acquisition Financing. Mr. Na has entered into the Optical Alpha Personal Guarantee on the same date to guarantee the repayment of any amount payable by Optical Alpha under the Optical Alpha Shareholder's Loan Agreement.

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## EXPLANATORY STATEMENT

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### **Offeror**

#### *(A) Offeror Subscription Agreement*

On 7 July 2020, Optical Alpha, Kaifa and the Offeror entered into the Offeror Subscription Agreement, pursuant to which, among others:

- (a) Optical Alpha has agreed to subscribe for 513,676,233 unpaid Offeror Shares at the Cancellation Price, among which (i) 287,710,833 unpaid Offeror Shares shall be credited as fully paid pursuant to the Mr. Na Related Shareholders Cancellation Consideration; and (ii) the remaining 225,965,400 unpaid Offeror Shares shall be credited as fully paid upon the settlement of the remaining subscription price by Optical Alpha on the drawdown date of the Optical Alpha Acquisition Financing, currently anticipated to be within 2 Business Day after the Effective Date (or such other date as agreed between the Optical Alpha and the Offeror). Optical Alpha and the Offeror has further agreed that, subject to the Scheme becoming effective, HK\$20 million out of the subscription price under (ii) above shall be set off by the shareholder's loan provided by Optical Alpha to the Offeror pursuant to the Offeror Shareholder's Loan Agreement; and
- (b) Kaifa has agreed to subscribe for 111,121,237 unpaid Offeror Shares at the Cancellation Price, which shall be credited as fully paid pursuant to the Kaifa Cancellation Consideration.

The subscriptions by Optical Alpha and Kaifa for Offeror Shares under the Offeror Subscription Agreement had been completed and the Offeror had become owned as to approximately 82.21% by Optical Alpha and 17.79% by Kaifa.

#### *(B) Offeror Shareholder's Loan Agreement*

On 7 July 2020, Offeror and Optical Alpha entered into the Offeror Shareholder's Loan Agreement pursuant to which Optical Alpha agreed to grant a shareholder's loan in the principal amount of HK\$20 million to the Offeror for the purpose of payment of fees and expenses as may be incurred by the Offeror in relation to the Offeror Acquisition Financing. The Offeror and Optical Alpha have further agreed that, subject to the Scheme becoming effective, the shareholder's loan made pursuant to the Offeror Shareholder's Loan Agreement shall be partially set off by HK\$20 million out of the total subscription price payable by Optical Alpha for approximately 3,076,923 Offeror Shares under the Offeror Subscription Agreement.

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## EXPLANATORY STATEMENT

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### 6. SHAREHOLDING STRUCTURE

As at the Latest Practicable Date:

- (a) the issued share capital of the Company comprises 834,028,240 Shares, all of which will be subject to the Scheme and regarded as Scheme Shares;
- (b) the Share Option Scheme had been terminated upon the expiry of its term on 9 April 2020, and all Options granted thereunder but not exercised by 8 April 2020 had lapsed on 9 April 2020. Accordingly, no Options are in issue as at the Latest Practicable Date. As disclosed in the Joint Announcement, as the Company has no intention to adopt a new share option scheme from the Announcement Date up to the Effective Date, it is also expected that no Options will be in issue during the period from the Announcement Date and up to the Effective Date (both dates inclusive);
- (c) the Company has no relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) other than its issued share capital comprising 834,028,240 Shares;
- (d) the Offeror does not legally or beneficially own, control or have direction over any Shares;
- (e) the Mr. Na Related Shareholders legally or beneficially own, control or have direction over 287,710,833 Shares, representing approximately 34.50% of the issued Shares, of which:
  - (i) 5,232,000 Shares, or 0.63% of the issued Shares, are held by Mandarin Assets (which is wholly owned by Mr. Na);
  - (ii) 228,373,383 Shares, or 27.38% of the issued Shares, are held by O-Net BVI (which Mr. Na has control over more than 30% of its voting rights); and
  - (iii) 54,105,450 Shares, or 6.49% of the issued Shares, are held by O-Net SAPL (which is wholly owned by O-Net BVI) as trustee on trust for the selected grantees under the Restricted Share Award Scheme. For details of the arrangement in relation to these Shares, please see Note 3 to the shareholding table below;
- (f) Kaifa legally or beneficially owns, controls or has direction over 171,121,237 Shares, representing approximately 20.52% of the issued Shares;

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## EXPLANATORY STATEMENT

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- (g) HC Capital held 2,788,000 Shares, representing 0.33% of the Shares in issue. Since, as at the Latest Practicable Date, HC Capital held more than 20% of the total voting rights of O-Net BVI, which in turn held 56.90% of the Optical Alpha Shares in issue, and Optical Alpha held 82.21% of the Offeror Shares in issue, HC Capital is presumed to be acting in concert with the Offeror by virtue of class (1) of the definition of “acting in concert” in the Takeovers Code;
- (h) the Equity Investor does not legally or beneficially own, control or have direction over any Shares;
- (i) the Subscription Investor does not legally or beneficially own, control or have direction over any Shares;
- (j) members of the Guosen Securities Group, being Offeror Concert Parties by virtue of Guosen Capital’s investment in the Subscription Investor through Shenzhen Songhexin LP and Shenzhen Songhe Zhengxingu LP, held 524,000 Shares, representing approximately 0.06% of the issued Shares. Based on Guosen Securities’ confirmation, (i) all these 524,000 Shares held by the Guosen Securities Group are not its proprietary interests; (ii) the Guosen Securities Group does not have any control over these 524,000 Shares (including the voting rights attaching thereto); and (iii) to the extent these 524,000 Shares were acquired during the Relevant Period, they were acquired at the sole instruction of non-discretionary investment clients (who are not the Offeror or any of the Offeror Concert Parties) with such clients’ own funds. None of such client’s ultimate beneficial owners are part of the Guosen Securities Group nor the Offeror nor any of the Offeror Concert Parties. As such, all the Shares held by the Guosen Securities Group are considered to be Shares held by Disinterested Shareholders;
- (k) the Disinterested Shareholders held 372,408,170 Shares, representing approximately 44.65% of the issued Shares;
- (l) save as disclosed above, the Offeror and the Offeror Concert Parties do not hold or have control or direction over any other Shares or any options, warrants, derivatives or securities convertible into Shares or other derivatives in respect of securities in the Company;
- (m) neither the Offeror nor the Offeror Concert Parties have entered into any outstanding derivative in respect of the securities in the Company; and
- (n) neither the Offeror nor the Offeror Concert Parties have borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company.

## EXPLANATORY STATEMENT

### Shareholding table

On the assumption that there is no other change in the shareholding structure of the Company before completion of the Proposal, the table below sets out the shareholding structure of the Company as at the Latest Practicable Date and immediately after completion of the Proposal:

Shareholders	As at the Latest Practicable Date		Immediately upon completion of the Proposal	
	No. of Shares	Approximate % (Note 9)	No. of Shares (Note 10)	Approximate % (Note 9)
Offeror	-	-	834,028,240	100
<b>Offeror Concert Parties</b>				
<i>Mr. Na Related Shareholders</i>				
Mandarin Assets (Note 1)	5,232,000	0.63	-	-
O-Net BVI (Note 2)	228,373,383	27.38	-	-
O-Net SAPL (Notes 3 and 4)	54,105,450	6.49	-	-
Sub-total:	<u>287,710,833</u>	<u>34.50</u>	<u>-</u>	<u>-</u>
Kaifa	171,121,237	20.52	-	-
HC Capital (Note 5)	2,788,000	0.33	-	-
<b>Aggregate number of Shares held by the Offeror and Offeror Concert Parties</b>	461,620,070	55.35	834,028,240	100
<b>Members of the CICC group acting in the capacity of exempt principal traders (Note 6)</b>				
Shares held on behalf of members of the CICC group (which are also exempt principal traders) (Note 6)	10,000	0.00	-	-
Shares held on behalf of non-discretionary clients (other than members of the CICC group) (Note 6)	96,000	0.00	-	-
Sub-total: (Note 6)	<u>106,000</u>	<u>0.01</u>	<u>-</u>	<u>-</u>
Guosen Securities Group (Note 7)	524,000	0.06	-	-
Directors (other than Mr. Na) (Note 8):				
Mr. Deng Jinping	500,000	0.06	-	-
Mr. Ong Chor Wei	500,000	0.06	-	-
Mr. Zhao Wei	500,000	0.06	-	-
Sub-total:	<u>1,500,000</u>	<u>0.18</u>	<u>-</u>	<u>-</u>
Other Disinterested Shareholders	370,278,170	44.40	-	-
<b>Aggregate number of Shares held by Disinterested Shareholders</b>	372,408,170	44.65	-	-
<b>Total number of Shares</b>	<u><u>834,028,240</u></u>	<u><u>100</u></u>	<u><u>834,028,240</u></u>	<u><u>100</u></u>
<b>Total number of Scheme Shares</b>	<u><u>834,028,240</u></u>	<u><u>100</u></u>	<u><u>-</u></u>	<u><u>-</u></u>

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## EXPLANATORY STATEMENT

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*Notes:*

1. Mandarin Assets is a business company incorporated in the BVI and is wholly owned by Mr. Na.
2. O-Net BVI is a business company incorporated in the BVI, which Mr. Na has control over 30% of its voting rights as at the Latest Practicable Date.
3. O-Net SAPL is a business company incorporated in the BVI and is wholly owned by O-Net BVI. O-Net SAPL is the trustee of the Restricted Share Award Scheme. Pursuant to the rules of the Restricted Share Award Scheme, the Board may, from time to time, at their absolute discretion select the grantee(s) after taking into account various factors as they deem appropriate for participation in the Restricted Share Award Scheme and determine the number of Shares to be awarded to such grantee(s). The 54,105,450 Shares held by O-Net SAPL as at the Latest Practicable Date comprised Shares subscribed for or purchased by O-Net SAPL and are held on trust by O-Net SAPL for the relevant selected grantees under the Restricted Share Award Scheme until such Share awards are vested with the relevant selected grantees in accordance with the rules of the Restricted Share Award Scheme, which provide, among other things, that the vesting of the Share awards with the relevant selected grantees is subject to O-Net SAPL's sole absolute discretion taking into account the interests of any selected grantee or the selected grantees as a whole. O-Net SAPL intended that none of the outstanding Share awards granted under the Restricted Shares Award Scheme shall vest on or prior to the Effective Date.

According to the rules of the Restricted Share Award Scheme, if there is a change in control of the Company by way of a scheme of arrangement, the Board shall have the discretion to decide whether the share awards granted thereunder shall vest or lapse on the date when such change of control event becomes or is declared unconditional. The decision of the Board shall be subject to the final decision and determination of O-Net SAPL as the trustee of the Restricted Share Award Scheme. For this purpose, the Board and O-Net SAPL had decided that all share awards granted but not vested under the Restricted Share Award Scheme shall lapse on the Effective Date.

It is accordingly expected that all the share awards granted but not vested under the Restricted Shares Award Scheme that are outstanding as at the Latest Practicable Date (representing all the Shares currently held by O-Net SAPL as at the Latest Practicable Date) will lapse on the Effective Date. No compensation has been or will be provided to the relevant grantee(s) directly or indirectly.

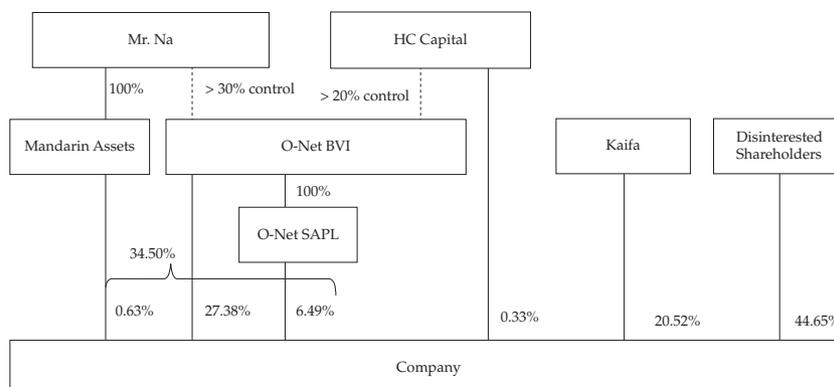
4. Among these 54,105,450 Shares held by O-Net SAPL, 1,000,000 Shares were granted to Mr. Na as awarded Shares under the Restricted Share Award Scheme, which were yet to be vested as at the Latest Practicable Date. As stated in Note 3 above, such share award is expected to lapse on the Effective Date pursuant to the terms of the Restricted Share Award Scheme.
5. HC Capital held more than 20% of the total voting rights of O-Net BVI, which in turn held 56.90% of the Optical Alpha Shares in issue as at the Latest Practicable Date, and Optical Alpha held 82.21% of the Offeror Shares in issue as at the Latest Practicable Date. Accordingly, HC Capital is presumed to be acting in concert with the Offeror by virtue of class (1) of the definition of "acting in concert" in the Takeovers Code. HC Capital is wholly-owned by Hsin Chong International Holdings Limited, which is in turn held as to 79.1% by HSBC Trustee (HK) Limited as the executor of the will of the late Dr. Meou-tsen Geoffrey Yeh.

## EXPLANATORY STATEMENT

6. Exempt principal traders which are connected for the sole reason that they are under the same control as CICC are not presumed to be acting in concert with the Offeror. However, Shares held by members of the CICC group acting in the capacity of exempt principal traders on behalf of other members of the CICC group (which are also exempt principal traders) will not be voted at the Court Meeting, and Shares held by members of the CICC group acting in the capacity of exempt principal traders on behalf of non-discretionary clients (other than members of the CICC group) will not be voted at the Court Meeting unless otherwise confirmed with the Executive).
7. Guosen Securities is the sole shareholder of Guosen Capital, which is a limited partner of Shenzhen Songhexin LP, which is in turn a limited partner of Shenzhen Songhe Zhengxingu LP, a fund established in relation to the Proposal. Based on Guosen Securities' confirmation, (i) all these 524,000 Shares held by the Guosen Securities Group are not its proprietary interests; (ii) the Guosen Securities Group does not have any control over these 524,000 Shares (including the voting rights attaching thereto); and (iii) to the extent these 524,000 Shares were acquired during the Relevant Period, they were acquired at the sole instruction of non-discretionary investment clients (who are not the Offeror or any of Offeror Concert Parties) with such clients' own funds. None of such client's ultimate beneficial owners are part of the Guosen Securities Group nor the Offeror nor any of the Offeror Concert Parties. As such, all the Shares held by the Guosen Securities Group are considered to be Shares held by Disinterested Shareholders.
8. Each of Mr. Deng Xinping, Mr. Ong Chor Wei and Mr. Zhao Wei is an independent non-executive Director.
9. The shareholding percentage in the table is subject to rounding adjustment.
10. Under the Scheme, the share capital of the Company will, on the Effective Date, be reduced by cancelling and extinguishing the Scheme Shares, and forthwith upon such reduction, the share capital of the Company will be increased to its former amount by the issuance at par to the Offeror credited as fully paid of the same number of Shares as is equal to the number of Scheme Shares cancelled and extinguished. The reserve created in the Company's books of account as a result of the capital reduction will be applied in paying up in full at par such number of new Shares as is equal to the number of Scheme Shares cancelled and extinguished as a result of the Scheme, credited as fully paid, for issuance to the Offeror.

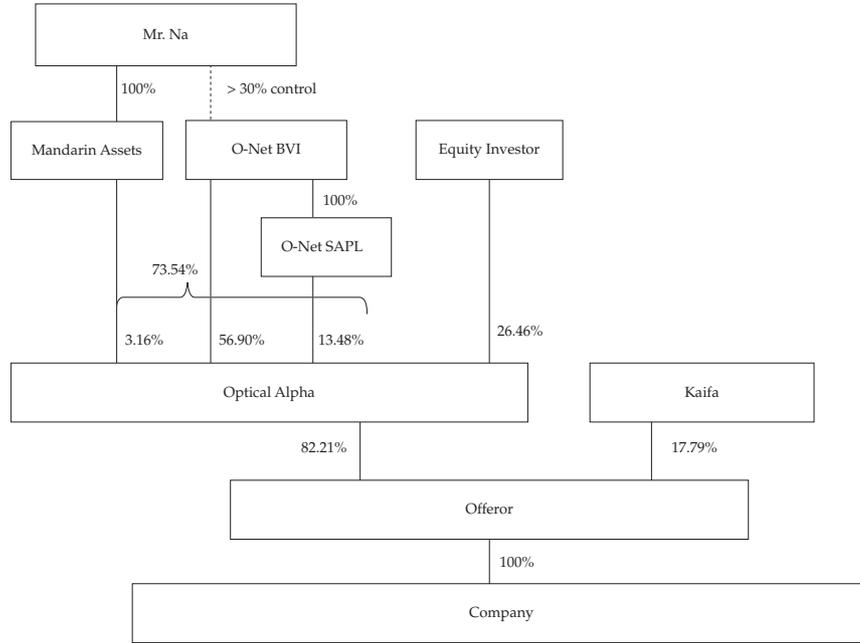
### Shareholding charts

The chart below sets out the shareholding structure of the Company as at the Latest Practicable Date:

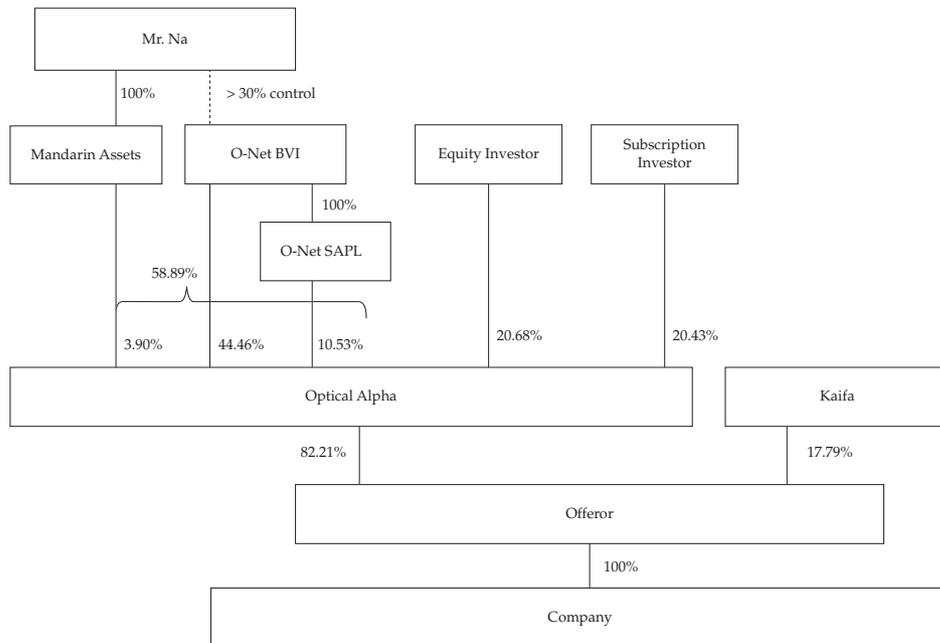


## EXPLANATORY STATEMENT

The chart below sets out the shareholding structure of the Company upon completion of the Proposal but before completion of the Onshore Subscription Agreement (on the assumption that there is no other change in the shareholding structure of the Company before completion of the Proposal):



The chart below sets out the shareholding structure of the Company upon completion of the Proposal and the Onshore Subscription Agreement (on the assumption that there is no other change in the shareholding structure of the Company before completion of the Proposal):



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## EXPLANATORY STATEMENT

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### 7. REASONS FOR AND BENEFITS OF THE PROPOSAL

#### **Low liquidity of the Shares**

The liquidity of the Shares has been at a relatively low level over a prolonged period of time, with an average daily trading volume of 1,491,740 Shares for the 24 months up to and including the Last Trading Day, representing less than 0.18% of the total issued Shares as at the Last Trading Day. Low trading liquidity of the Shares renders it difficult for Shareholders to execute substantial on-market disposals without adversely affecting the price of the Shares. Further, the Directors believe that such low liquidity hinders the Company's ability to raise funds from the public equity market, which no longer serves as a viable source of funding for developing the Group's business.

#### **Attractive opportunity to realise investments**

The Proposal is intended to provide the Scheme Shareholders with an attractive opportunity to realise their investments and interests in the Company for cash at a premium. The Cancellation Price represents a premium of approximately (i) 23.57% over the closing price of the Shares on the Last Trading Day; (ii) 25.68% over the average closing price of the Shares for the 10 trading days up to and including the Last Trading Day; (iii) 24.56% over the average closing price of the Shares for the 30 trading days up to and including the Last Trading Day; (iv) 34.26% over the average closing price of the Shares for the 90 trading days up to and including the Last Trading Day; (v) 43.18% over the average closing price of the Shares for the 180 trading days up to and including the Last Trading Day; (vi) 19.27% over the average closing price of the Shares for the 52-week closing high; and (vii) 128.85% over the audited consolidated net asset value per Share as at 31 December 2019.

### 8. THE OFFEROR'S INTENTIONS IN RELATION TO THE GROUP

It is the intention of the Offeror that the Group will continue to carry on its current business, which principally comprises the design, manufacturing and sale of optical networking products for the high-speed telecommunications and data communications systems as well as machine vision systems and sensors for smart manufacturing market.

The Offeror does not intend to introduce any major changes to the business of the Group (including any redeployment of fixed assets of the Group).

The Offeror does not intend to make any significant changes to the continued employment of the employees of the Group as a result of the implementation of the Proposal.

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## EXPLANATORY STATEMENT

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### 9. FINANCIAL RESOURCES

As at the Latest Practicable Date, (i) there are a total of 834,028,240 Shares in issue; and (ii) the Mr. Na Related Shareholders and Kaifa in aggregate directly or indirectly hold 458,832,070 Shares (representing approximately 55.01% of the total issued Shares). In accordance with the terms of the Consortium Agreement, the Mr. Na Related Shareholders and Kaifa have undertaken to the cancellation and extinguishment of their respective Shares under the Scheme in consideration for receiving the Mr. Na Related Shareholders Cancellation Consideration and the Kaifa Cancellation Consideration, respectively.

Taking into account that the Mr. Na Related Shareholders will not receive the Cancellation Price in cash for the 287,710,833 Scheme Shares held or controlled by the Mr. Na Related Shareholders, and Kaifa will not receive the Cancellation Price in cash for the 111,121,237 Scheme Shares out of 171,121,237 Scheme Shares held or controlled by Kaifa under the Scheme, the Scheme would involve making an offer to cancel and extinguish the remaining 60,000,000 Scheme Shares held by Kaifa and the 375,196,170 Scheme Shares held by the Scheme Shareholders (excluding the Mr. Na Related Shareholders and Kaifa) in exchange for the Cancellation Price in cash. Therefore, the maximum total amount of cash required to effect the Proposal is approximately HK\$2,828.78 million.

The Offeror intends to finance the cash requirement for the Proposal through:

- (i) a drawdown of debt facilities with an aggregate amount of HK\$1.44 billion provided by CMB (i.e. the Offeror Acquisition Financing), the Offeror's repayment obligation under which is guaranteed by Mr. Na and to be secured by, among others, account charges, share charges and equity charges over relevant subsidiaries and assets of the Company after the completion of the Proposal; and
- (ii) a shareholder contribution from Optical Alpha to the Offeror funded by
  - (a) a drawdown of debt facilities with an aggregate amount of HK\$730 million provided by CMB to Optical Alpha (i.e. the Optical Alpha Acquisition Financing), Optical Alpha's repayment obligation under which is guaranteed by Mr. Na and secured by among others, equitable mortgages over all Optical Alpha Shares and over Optical Alpha's entire shareholding interest in the Offeror; and
  - (b) an aggregate cash investment of HK\$738,775,102, being the subscription price payable by the Equity Investor under the Offshore Subscription Agreement, payable by the Equity Investor no later than the Business Day immediately following the date on which the Scheme is sanctioned (with or without modifications) by the Grand Court of the Cayman Islands (or such other date as agreed between the Equity Investor and the Offeror) funded by an irrevocable standby letter of credit issued by Silicon Valley Bank dated 6 July 2020 made available to Optical Alpha as the beneficiary in the aggregate principal amount of US\$96.00 million.

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## EXPLANATORY STATEMENT

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As at the Latest Practicable Date, a sum of RMB660 million (approximately equivalent to HK\$730 million) had been deposited into the designated bank account pursuant to the Subscription Investor's Irrevocable Undertakings and the terms of the Onshore Subscription Agreement for the purpose of satisfying one of the conditions precedent for the drawdowns of the Offeror Acquisition Financing and the Optical Alpha Acquisition Financing and the entire share capital of the Subscription Investor had been pledged to the designated bank.

CICC, the financial adviser to the Offeror, is satisfied that sufficient financial resources are available to the Offeror for discharging its obligations in respect of the full implementation of the Proposal in accordance with its terms.

### 10. INFORMATION ON THE OFFEROR AND OFFEROR CONCERT PARTIES

#### (a) Offeror

The Offeror is a business company incorporated in the BVI with limited liability. As at the Latest Practicable Date, it is held as to 82.21% by Optical Alpha and 17.79% by Kaifa.

#### (b) Optical Alpha

Optical Alpha is a business company incorporated in the BVI with limited liability. As at the Latest Practicable Date, it is held as to 73.54% by the Mr. Na Related Shareholders (including 3.16% by Mandarin Assets, 56.90% by O-Net BVI and 13.48% by O-Net SAPL) and 26.46% by the Equity Investor. Upon completion of the Onshore Subscription Agreement, it is expected that Optical Alpha will be held as to 58.89% by the Mr. Na Related Shareholders (including 3.90% by Mandarin Assets, 44.46% by O-Net BVI, 10.53% by O-Net SAPL), 20.68% by the Equity Investor and 20.43% by the Subscription Investor.

#### (c) Mr. Na Related Shareholders

The Mr. Na Related Shareholders comprise Mandarin Assets, O-Net BVI and O-Net SAPL.

##### *Mandarin Assets*

Mandarin Assets is a business company incorporated in the BVI with limited liability and wholly owned by Mr. Na.

Mr. Na is the chairman of the Board, the chief executive officer of the Company and an executive Director. Mr. Na joined the Company as the chief executive officer in January 2002 and was subsequently appointed as the co-chairman of the Board and an executive Director on 12 November 2009. He was re-designated from co-chairman to chairman of the Board on 7 October 2016. He is the chairman of each of the Nomination Committee and the Corporate Governance Committee and a member of the Remuneration

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## EXPLANATORY STATEMENT

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Committee of the Company. Mr. Na is also a director of all the subsidiaries of the Company. He is responsible for the Company's overall corporate strategy, management team development and daily operations.

Mr. Na is also the sole director of each of the Offeror, Optical Alpha, Mandarin Assets and O-Net SAPL.

### *O-Net BVI*

O-Net BVI is a business company incorporated in the BVI and is controlled as to (i) approximately 36.67% by Mr. Na and his controlled corporations; (ii) approximately 34.07% by Hsin Chong International Holdings Limited and its wholly owned subsidiaries; and (iii) approximately 29.26% by other shareholders (none of which controls 20% or more of the voting rights of O-Net BVI).

Mr. Na and Mr. Huang Bin are the directors of O-Net BVI.

### *O-Net SAPL*

O-Net SAPL is a business company incorporated in the BVI and is wholly owned by O-Net BVI.

O-Net SAPL is the trustee of the Restricted Share Award Scheme. Pursuant to the rules of the Restricted Share Award Scheme, the Board may, from time to time, at their absolute discretion select the grantee(s) after taking into account various factors as they deem appropriate for participation in the Restricted Share Award Scheme and determine the number of Shares to be awarded to such grantee(s). The 54,105,450 Shares held by O-Net SAPL as at the Latest Practicable Date comprised Shares subscribed for or purchased by O-Net SAPL and are held on trust by O-Net SAPL for the relevant selected grantees under the Restricted Share Award Scheme until such Share awards are vested with the relevant selected grantees in accordance with the rules of the Restricted Share Award Scheme, which provide, among other things, that the vesting of the Share awards with the relevant selected grantees is subject to O-Net SAPL's sole absolute discretion taking into account the interests of any selected grantee or the selected grantees as a whole. O-Net SAPL intended that none of the outstanding Share awards granted under the Restricted Shares Award Scheme shall vest on or prior to the Effective Date.

According to the rules of the Restricted Share Award Scheme, if there is a change in control of the Company by way of a scheme of arrangement, the Board shall have the discretion to decide whether the share awards granted thereunder shall vest or lapse on the date when such change of control event becomes or is declared unconditional. The decision of the Board shall be subject to the final decision and determination of O-Net SAPL as the trustee of the Restricted Share Award Scheme. For this purpose, the Board and O-Net SAPL have decided that all share awards granted but not vested under the Restricted Share Award Scheme shall lapse on the Effective Date.

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## EXPLANATORY STATEMENT

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It is accordingly expected that all the share awards granted but not vested under the Restricted Shares Award Scheme that are outstanding as at the Latest Practicable Date (representing all the Shares currently held by O-Net SAPL as at the Latest Practicable Date) will lapse on the Effective Date. No compensation has been or will be provided to the relevant grantee(s) directly or indirectly in this respect.

**(d) Kaifa**

Kaifa is incorporated in Hong Kong with limited liability and is a wholly-owned subsidiary of Shenzhen Kaifa, a listed company on the Shenzhen Stock Exchange.

Kaifa is an investment holding company. Shenzhen Kaifa is principally engaged in research and development, production control, procurement management, logistics support, and other electronic manufacturing services and supply chain management services.

The board of directors of Kaifa comprises Mr. Zhou Jian, Mr. Cheng Kwok Wing and Mr. Chen Zhujiang.

The board of directors of Shenzhen Kaifa comprises Mr. Zhou Jian, Mr. Cheng Kwok Wing, Mr. Li Gang, Mr. Liu Yanwu, Mr. Chen Zhujiang, Mr. Dong Dawei, Mr. Qiu Daliang, Mr. Song Chunlei and Mr. Bai Junjiang.

**(e) Equity Investor**

The Equity Investor, LVC Technology Legend Limited, is a company incorporated in the Cayman Islands with limited liability and an investment vehicle wholly-owned by LVC Prime LP (“**LVC Prime Fund**”). LVC Prime Fund is a Cayman Islands exempted limited partnership. The general partner of LVC Prime Fund is Loyal Valley Capital Advantage Fund II Limited (“**LVC Fund II GP**”). LVC Fund II GP is a company incorporated in the Cayman Islands with limited liability whose principal business is investment holding and is wholly-owned by LVC Holdings Limited, which is in turn a company incorporated in the Cayman Islands with limited liability which is ultimately controlled by Mr. Andy Lin (Lijun Lin), founder of Loyal Valley Capital, a private equity investment company.

The sole director of the Equity Investor and LVC Holdings Limited is Mr. Andy Lin (Lijun Lin).

**(f) Subscription Investor**

The Subscription Investor, Shenzhen Zhengxinhe Consultancy Company Limited\* (深圳市正信禾諮詢有限責任公司), is a company established in the PRC with limited liability in relation to the Proposal, which is owned as to 93.33% by Shenzhen Songhe Zhengxingu LP (i.e. Shenzhen Songhe Zhengxingu Entrepreneurship Investment Limited Partnership\* (深圳市松禾正心谷創業投資合夥企業(有限合夥))) and 6.67% by Zhejiang Zhongrong Zhengyang Investment Management Company Limited\* (浙江中融正陽投資管理有限公司) (“**Zhejiang Zhongrong**”). The sole director of the Subscription Investor is Ms. Yuan Hongwei.

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## EXPLANATORY STATEMENT

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Shenzhen Songhe Zhengxingu LP is a limited partnership fund established in the PRC in relation to the Proposal. The general partners of Shenzhen Songhe Zhengxingu LP are Shanghai Loyal Valley Investment Management Co., Limited\* (上海正心谷投資管理有限公司) (previously known as Shanghai Shengge Investment Management Limited\* (上海盛歌投資管理有限公司)) (“**Shanghai Loyal Valley**”), which is a member of Loyal Valley Capital, and Shenzhen Songhe Growth Fund Management Limited\* (深圳市松禾成長基金管理有限公司) (“**Shenzhen Songhe Growth Fund**”). Shenzhen Songhe Growth Fund is also the fund manager of Shenzhen Songhe Zhengxingu LP. The limited partners of Shenzhen Songhe Zhengxingu LP are Shenzhen Songhe Haichuang Entrepreneurship Investment Limited Partnership\* (深圳市松禾海創創業投資合夥企業(有限合夥)) (“**Shenzhen Songhe Haichuang LP**”), Shenzhen Songhexin LP (i.e. Shenzhen Songhexin Entrepreneurship Investment Limited Partnership\* (深圳市松和信創業投資合夥企業(有限合夥))), Shanghai Tanying Investment Limited Partnership\* (上海檀英投資合夥企業(有限合夥)) (“**Shanghai Tanying LP**”) and Shenzhen Zhongzhao Hefeng Entrepreneurship Investment Limited Partnership\* (深圳市中釗和楓創業投資合夥企業(有限合夥)) (“**Shenzhen Zhongzhao Hefeng LP**”). Details of the general partners and limited partners of Shenzhen Songhe Zhengxingu LP are set out below:

- **Shanghai Loyal Valley:** Shanghai Loyal Valley, which is a member of Loyal Valley Capital, is a company established in the PRC with limited liability and is wholly-owned by Mr. Andy Lin (Lijun Lin). Shanghai Loyal Valley is principally engaged in investment management. The sole director of Shanghai Loyal Valley is Mr. Andy Lin (Lijun Lin);
- **Shenzhen Songhe Growth Fund:** Shenzhen Songhe Growth Fund is a company established in the PRC with limited liability and is owned as to 42.5% by Shenzhen Songhe Chanye Capital Management Limited Partnership\* (深圳市松禾產業資本管理合夥企業(有限合夥)) (“**Shenzhen Songhe Chanye LP**”) and as to 57.5% by Shenzhen Songhe Entrepreneurship Investment Limited\* (深圳市松禾創業投資有限公司) (“**Shenzhen Songhe Entrepreneurship Investment**”). Shenzhen Songhe Growth Fund is principally engaged in investment management. The board of directors of Shenzhen Songhe Growth Fund comprises Mr. Li Wei, Mr. Luo Fei and Ms. Yuan Hongwei.

Shenzhen Songhe Chanye LP is a limited liability partnership established in the PRC and is principally engaged in equity investment. Its general partner is Mr. Luo Fei.

Shenzhen Songhe Entrepreneurship Investment is a company established in the PRC with limited liability, which is owned as to 77.87% by Ms. Cui Jingtao, its single largest shareholder. Shenzhen Songhe Entrepreneurship Investment is principally engaged in entrepreneurship investment.

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## EXPLANATORY STATEMENT

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- **Shenzhen Songhexin LP:** Shenzhen Songhexin LP is a limited partnership established in the PRC. Its general partner is Shenzhen Songhe Growth Fund and its limited partners are Shenzhen Songhe Entrepreneurship Investment and Guosen Capital, which is a company established in the PRC with limited liability and is wholly owned by Guosen Securities, a company listed on the Shenzhen Stock Exchange (stock code: 002736) and is principally engaged in the provision of financial services.
- **Shenzhen Songhe Haichuang LP:** Shenzhen Songhe Haichuang LP is a limited partnership established in the PRC in relation to the Proposal. Its general partner is Shenzhen Songhe Growth Fund and its limited partners are Shenzhen Songhe Entrepreneurship Investment (which holds the largest attributable interest, being 71.4677% in Shenzhen Songhexin LP) and 16 natural persons.
- **Shanghai Tanying LP:** Shanghai Tanying LP is a limited partnership established in the PRC and is principally engaged in equity investment. Its general partner is Shanghai Loyal Valley.
- **Shenzhen Zhongzhao Hefeng LP:** Shenzhen Zhongzhao Hefeng LP is a limited partnership established in the PRC and is principally engaged in entrepreneurship investment. Its general partner is Shenzhen Qianhai Zhongzhao Capital Management Limited\* (深圳市前海中釗資本管理有限公司) (“**Shenzhen Qianhai Zhongzhao**”), which is a company established in the PRC with limited liability and owned as to 65% by Mr. Zheng Huanjian and 35% by Mr. Zhou Xiaohang. Shenzhen Qianhai Zhongzhao is principally engaged in entrepreneurship investment.

Zhejiang Zhongrong is a company established in the PRC with limited liability and owned as to 50% by Mr. Wei Guohua and 50% by Mr. Tang Zheng. Zhejiang Zhongrong is principally engaged in industrial investment management.

**(g) HC Capital**

HC Capital held more than 20% of the total voting rights of O-Net BVI, which in turn held 56.90% of the Optical Alpha Shares in issue as at the Latest Practicable Date, and Optical Alpha held 82.21% of the Offeror Shares in issue as at the Latest Practicable Date. Accordingly, HC Capital is presumed to be acting in concert with the Offeror by virtue of class (1) of the definition of “acting in concert” in the Takeovers Code. HC Capital is wholly-owned by Hsin Chong International Holdings Limited, which is in turn held as to 79.1% by HSBC Trustee (HK) Limited as the executor of the will of the late Dr. Meou-tsen Geoffrey Yeh.

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## EXPLANATORY STATEMENT

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### 11. INFORMATION ON THE GROUP

The Group is principally engaged in the design, manufacturing and sale of optical networking products for the high-speed telecommunications and data communications systems as well as machine vision systems and sensors for smart manufacturing market.

### 12. IF THE SCHEME IS NOT APPROVED OR THE PROPOSAL LAPSES

Subject to the requirements of the Takeovers Code, the Scheme will lapse if any of the Conditions has not been fulfilled or waived, as applicable, on or before the Long Stop Date. The listing of the Shares on the Stock Exchange will not be withdrawn if the Scheme does not become effective or the Proposal otherwise lapses. If the Proposal and the Scheme lapse, no change in the shareholding structure of the Company will result from the Proposal and the Scheme, and the shareholding structure of the Company as at the Latest Practicable Date as set out in the section headed “6. Shareholding Structure” in the Explanatory Statement shall remain unchanged (assuming that there is no other change in the shareholding structure of the Company from the Latest Practicable Date up to the date on which the Proposal and the Scheme lapse). Accordingly, the Company will continue to be able to maintain sufficient public float in its Shares under Rule 8.08 of the Listing Rules in the event that the Proposal and the Scheme lapse.

**If the Scheme is not approved or the Proposal otherwise lapses, there are restrictions under the Takeovers Code on making subsequent offers, to the effect that neither the Offeror nor any person who acted in concert with it in the course of the Proposal (nor any person who is subsequently acting in concert with any of them) may within 12 months from the date on which the Scheme is not approved or the Proposal otherwise lapses, announce an offer or possible offer for the Company, except with the consent of the Executive.**

### 13. WITHDRAWAL OF LISTING OF THE SHARES

Upon the Scheme becoming effective, all the Scheme Shares will be cancelled and extinguished (with the equivalent number of new Shares being simultaneously issued and credited as fully paid to the Offeror) and the share certificates for the Scheme Shares will thereafter cease to have effect as documents or evidence of title.

The Company will make an application for the listing of the Shares to be withdrawn from the Stock Exchange in accordance with Rule 6.15(2) of the Listing Rules, with effect after the Effective Date.

The Shareholders will be notified by way of an announcement of the dates of the last day for dealing in the Shares and the day on which the Scheme and the withdrawal of the listing of the Shares on the Stock Exchange will become effective.

### 14. REGISTRATION AND PAYMENT

Assuming that the Scheme Record Date falls on Thursday, 15 October 2020, it is proposed that the register of members of the Company will be closed from Thursday, 8 October 2020 (or such other date as Shareholders may be notified by an announcement) onwards in order to determine entitlements under the Scheme. In order to qualify for entitlements under the Scheme, Scheme Shareholders should ensure that the transfers of Share to them accompanied by the relevant share certificates must be lodged with the Share Registrar at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong before 4:30 p.m. on Wednesday, 7 October 2020.

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## EXPLANATORY STATEMENT

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Upon the Scheme becoming effective, the Cancellation Price will be paid to the Scheme Shareholders whose names appear in the register of members of the Company on the Scheme Record Date as soon as possible but in any event within seven business days (as defined in the Takeovers Code) following the Effective Date. On the basis that the Scheme becomes effective on Thursday, 15 October 2020, the cheques for the payment of the Cancellation Price are expected to be despatched on or before Tuesday, 27 October 2020.

Cheques for the payment of the Cancellation Price will be sent by ordinary post in postage pre-paid envelopes addressed to the persons entitled thereto at their respective registered addresses or, in the case of joint holders, to the registered address of that joint holder whose name then stands first in the register of members of the Company in respect of the joint holding. All such cheques will be posted at the risk of the persons entitled thereto and none of the Offeror, the Company, CICC, the Independent Financial Adviser and the Share Registrar and their respective directors, employees, officers, agents, advisers, associates and affiliates and any other persons involved in the Proposal will be responsible for any loss or delay in transmission.

On or after the day being six calendar months after the posting of such cheques, the Offeror shall have the right to cancel or countermand payment of any such cheque which has not been cashed or has been returned uncashed and shall place all monies represented thereby in a deposit account in the Offeror's name with a licensed bank in Hong Kong selected by the Offeror.

The Offeror shall hold such monies until the expiry of six years from the Effective Date and shall, prior to such date, make payments therefrom of the sums payable pursuant to the Scheme to persons who satisfy the Offeror that they are respectively entitled thereto and the cheques of which they are payees have not been cashed. Any payments made by the Offeror shall include any interest accrued on the sums to which the respective persons are entitled pursuant to the Scheme calculated at the annual rate prevailing from time to time at the licensed bank in which the monies are deposited, subject, if applicable, to the deduction of interest, tax or any withholding tax or any other deduction required by law. The Offeror shall exercise its absolute discretion in determining whether or not it is satisfied that any person is so entitled, and a certificate of the Offeror to the effect that any particular person is so entitled or not so entitled, as the case may be, shall be conclusive and binding upon all persons claiming an interest in the relevant monies.

On the expiry of six years from the Effective Date, the Offeror shall be released from any further obligation to make any payments under the Scheme and the Offeror shall be absolutely entitled to the balance (if any) of the sums then standing to the credit of the deposit account in its name, including accrued interest subject to, if applicable, any deduction of interest, tax or any withholding tax or any other deduction required by law and expenses incurred.

Assuming that the Scheme becomes effective, the register of members of the Company will be updated accordingly to reflect the cancellation of all the Scheme Shares and all existing certificates for the Scheme Shares will cease to have effect as documents or evidence of title as from the Effective Date, which is expected to be on Thursday, 15 October 2020 (Cayman Islands time).

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## EXPLANATORY STATEMENT

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Settlement of the Cancellation Price to which any Scheme Shareholder is entitled will be implemented in full in accordance with the terms of the Proposal without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against such Scheme Shareholder.

### 15. OVERSEAS SCHEME SHAREHOLDERS

This Scheme Document has been prepared for the purposes of complying with the laws of Hong Kong and the Cayman Islands, the Takeovers Code and the Listing Rules and the information disclosed may not be the same as that which would have been disclosed if this Scheme Document had been prepared in accordance with the laws of any other jurisdictions.

This Scheme Document does not constitute an offer to buy or sell Shares or the solicitation of an offer to buy or subscribe for the Shares in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction.

The making and implementation of the Proposal to Scheme Shareholders who are not resident in Hong Kong may be affected by the applicable laws of the relevant jurisdictions. Any Scheme Shareholders who are not resident in Hong Kong should inform themselves about and observe any applicable legal and regulatory requirements in their own jurisdictions. The Offeror and the Company do not represent that this Scheme Document may be lawfully distributed in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Offeror and the Company which is intended to permit a public offering or the distribution of this Scheme Document in any jurisdiction (other than Hong Kong) where action for that purpose is required. Accordingly, it is prohibited to (i) copy, distribute or publish all or part of this Scheme Document or any advertisement or other offering material in any jurisdiction; and to (ii) disclose its content; or (iii) use information contained therein for any purpose other than assessment of the Proposal, unless the information is already publicly available in another form.

It is the responsibility of any overseas Scheme Shareholders wishing to take any action in relation to the Proposal to satisfy themselves as to the full observance of the laws and regulations of the relevant jurisdiction in connection therewith, including the obtaining of any governmental, exchange control or other consents which may be required, compliance with the necessary formalities and the payment of any issue, transfer or other taxes due from such shareholder in such jurisdiction. The Offeror and the Company expressly decline any liability for breach of any of these restrictions by any persons.

Any acceptance by the Scheme Shareholders will be deemed to constitute a representation and warranty from such persons to the Offeror and the Company and their respective advisers, including CICC, that those laws and regulatory requirements have been complied with. If you are in doubt as to your position, you should consult your professional advisers.

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## EXPLANATORY STATEMENT

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### 16. TAXATION AND INDEPENDENT ADVICE

As the Scheme does not involve the sale and purchase of Hong Kong stock, no Hong Kong stamp duty will be payable pursuant to the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong) on the cancellation of the Scheme Shares upon the Scheme becoming effective.

All Scheme Shareholders, whether in Hong Kong or in other jurisdictions, are recommended to consult their own professional advisers if they are in any doubt as to the taxation implications of accepting the Proposal and, in particular, whether the receipt of the Cancellation Price would make such Scheme Shareholder liable to taxation in Hong Kong or in other jurisdictions.

**It is emphasised that none of the Offeror, any party acting in concert with the Offeror, the Company, CICC, the Independent Financial Adviser and the Share Registrar and their respective directors, employees, officers, agents, advisers, associates and affiliates or any other persons involved in the Proposal accept responsibility for any tax or other effects on, or liabilities of, any person or persons as a result of their approval or rejection, or the implementation, of the Proposal.**

### 17. SCHEME SHARES, COURT MEETING AND EGM

#### Number of Scheme Shares

As at the Latest Practicable Date:

- (a) the issued share capital of the Company comprised 834,028,240 Shares, all of which will be subject to the Scheme and regarded as Scheme Shares;
- (b) the Disinterested Shareholders were holders of an aggregate of 372,408,170 Shares, representing approximately 44.65% of the total issued Shares. All of these 372,408,170 Shares will form part of the Scheme Shares; and
- (c) the Mr. Na Related Shareholders, Kaifa and HC Capital, being Offeror Concert Parties, in aggregate directly or indirectly hold 461,620,070 Shares (representing approximately 55.35% of the total issued Shares). All of these 461,620,070 Shares will form part of the Scheme Shares.

#### Court Meeting

In accordance with the direction of the Grand Court, the Court Meeting will be held for the purpose of considering and, if thought fit, passing the resolution to approve the Scheme (with or without modification(s)). All Disinterested Shareholders whose names appear on the register of members of the Company as at the Meeting Record Date will be entitled to attend and vote on the Scheme at the Court Meeting in person or by proxy. Mr. Na Related Shareholders, Kaifa and HC Capital, being Offeror Concert Parties, will not vote on the Scheme at the Court Meeting.

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## EXPLANATORY STATEMENT

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For the purpose of Condition (a) in the section headed “3. Conditions to the Proposal” in the Explanatory Statement, the Scheme will become effective subject to, among others, the approval of the Scheme (by way of poll) by a majority in number of the Disinterested Shareholders representing not less than 75% in value of the Shares held by the Disinterested Shareholders, present and voting either in person or by proxy at the Court Meeting in accordance with the Companies Law.

In accordance with the Companies Law, the abovementioned “majority in number” requirement in Condition (a) will be met if the number of Disinterested Shareholders voting in favour of the Scheme at the Court Meeting exceeds the number of Disinterested Shareholders voting against the Scheme at the Court Meeting. For this purpose, the number of Disinterested Shareholders, present and voting in person or by proxy, will be counted. In accordance with the direction from the Grand Court, for the purpose of the abovementioned “majority in number” requirement in Condition (a), HKSCC Nominees shall be permitted to vote once for and once against the Scheme in accordance with the instructions received by it from the Investor Participants and other CCASS Participants. Thus:

- (i) if HKSCC Nominees receives instructions to vote for the Scheme and instructions to vote against the Scheme, it shall vote once for and once against the Scheme in accordance with such instructions, and be counted as one Shareholder under the votes “for” the Scheme and as one Shareholder under the votes “against” the Scheme;
- (ii) if HKSCC Nominees only receives instructions to vote for the Scheme, it shall vote once for the Scheme in accordance with such instructions, and be counted as one Shareholder under the votes “for” the Scheme; and
- (iii) if HKSCC Nominees only receives instructions to vote against the Scheme, it shall vote once against the Scheme in accordance with such instructions, and be counted as one Shareholder under the votes “against” the Scheme.

The number of votes cast in favour of the Scheme and the number of CCASS Participants on whose instructions they are cast, and/or the number of votes cast against the Scheme and the number of CCASS Participants on whose instructions they are cast, will be disclosed to the Grand Court and may be taken into account in deciding whether or not the Grand Court should exercise its discretion to sanction the Scheme.

In accordance with the Companies Law, the abovementioned “75% in value” requirement in Condition (a) will be met if the total number of the Shares being voted in favour of the Scheme is at least 75% of the total number of the Shares voted at the Court Meeting.

Notice of the Court Meeting is set out on pages NCM-1 to NCM-4 of this Scheme Document. The Court Meeting will be held on Friday, 25 September 2020 at the time and place specified in the notice.

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## EXPLANATORY STATEMENT

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### EGM

As soon as practicable after the Court Meeting shall have concluded or been adjourned, the EGM will be held for the purpose of considering and, if thought fit, passing (i) a special resolution to approve the reduction of the issued share capital of the Company by the cancellation and extinguishment of the Scheme Shares; and (ii) an ordinary resolution to apply the reserve created by the cancellation and extinguishment of the Scheme Shares to simultaneously restore the issued share capital of the Company by the allotment and issue to the Offeror of such number of new Shares (credited as fully paid) as is equal to the number of Scheme Shares cancelled.

All Shareholders whose names appear on the register of members of the Company as at the Meeting Record Date will be entitled to attend and vote at the EGM. At the EGM, all votes will be taken by poll and each Shareholder present and voting, either in person or by proxy, will be entitled to either vote all of his/her/its Shares in favour of or against each of the resolutions proposed at the EGM, or he/she/it may vote some of his/her/its Shares in favour of, and any or all of the balance of their Shares against, each of the resolutions proposed at the EGM (and vice versa).

Notice of the EGM is set out on pages EGM-1 to EGM-4 of this Scheme Document. The EGM will be held at the same place and on the same date as at the Court Meeting at 10:30 a.m. (or as soon as practicable after the Court Meeting shall have concluded or been adjourned).

### Results of the Court Meeting and the EGM

An announcement will be made by the Company and the Offeror in relation to the results of the Court Meeting and the EGM no later than 7:00 p.m. on Friday, 25 September 2020. Information on the number of votes cast for and the number of votes cast against the Scheme and the number of CCASS Participants on whose instructions they are cast will be included in this announcement.

As at the Latest Practicable Date, neither the Offeror nor any party acting in concert with it had received any irrevocable commitment to vote for or against the Proposal at the Court Meeting. Under the terms of the Consortium Agreement, the Mr. Na Related Shareholders and Kaifa had provided the Mr. Na Related Shareholders and Kaifa Irrevocable Undertakings, pursuant to which each of the Mr. Na Related Shareholders and Kaifa has irrevocably undertaken and agreed that, among others, it will vote in favour of the resolutions to be proposed at the EGM to approve and give effect to the reduction of the number of issued Shares in the share capital of the Company and any resolutions proposed at the EGM to assist the implementation of the Scheme or are necessary for the Scheme to become effective. As at the Latest Practicable Date, save for the Mr. Na Related Shareholders and Kaifa Irrevocable Undertakings, neither the Offeror nor any party acting in concert with it had received any irrevocable commitment to vote for or against any of the resolutions to be proposed at the EGM.

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## EXPLANATORY STATEMENT

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If the resolution to be proposed at the Court Meeting and all the resolutions to be proposed at the EGM are passed in fulfilment of Conditions (a) and (b) as set out in the section headed “3. Conditions to the Proposal” in the Explanatory Statement on pages 87 to 89 of this Scheme Document, respectively, the expected latest time for trading of the Shares on the Stock Exchange is 4:10 p.m. on Monday, 5 October 2020 (or such other date and time as Shareholders may be notified by way of announcement), and trading in the Shares on the Stock Exchange will cease from then onwards, unless the Scheme is withdrawn or lapses in accordance with its terms and the Takeovers Code subsequently, in which event trading in the Shares on the Stock Exchange will resume after the date on which the Scheme is so withdrawn or lapses and further announcement(s) will be made to notify Shareholders and investors of the Company of the exact date and time by which trading of the Shares on the Stock Exchange will resume.

If the resolution to be proposed at the Court Meeting or if any of the resolutions to be proposed at the EGM is not passed in accordance with Conditions (a) or (b) as set out in the section headed “3. Conditions to the Proposal” on pages 87 to 89 of this Scheme Document, respectively, the Scheme and the Proposal will lapse and trading in the Shares on the Stock Exchange will not cease from 4:10 p.m. on Monday, 5 October 2020 onwards. Further announcement(s) will be made in this event.

### **18. ADDITIONAL REQUIREMENTS AS IMPOSED BY RULE 2.10 OF THE TAKEOVERS CODE**

In addition to satisfying any requirements imposed by law as summarised above, other than with the consent of the Executive to dispense with compliance or strict compliance therewith, Rule 2.10 of the Takeovers Code requires that the Scheme may only be implemented if:

- (a) the Scheme is approved by the Disinterested Shareholders holding at least 75% of the votes attaching to the Scheme Shares held by the Disinterested Shareholders that are cast either in person or by proxy at the Court Meeting; and
- (b) the number of votes cast by the Disinterested Shareholders present and voting either in person or by way of proxy at the Court Meeting against the resolution to approve the Scheme at the Court Meeting is not more than 10% of the votes attaching to all Scheme Shares held by all Disinterested Shareholders.

### **19. INDICATIONS AS TO VOTING**

Each of the Directors who hold or are beneficially interested in the Shares, being Mr. Na, Mr. Deng Xinping, Mr. Ong Chor Wei and Mr. Zhao Wei, has indicated that those Shares held by him will be voted in favour of (i) the resolution to approve the Scheme at the Court Meeting (except for Mr. Na, who, as an Offeror Concert Party, will not vote at the Court Meeting as disclosed in the section headed “17. Scheme Shares, Court Meeting and EGM” in the Explanatory Statement); and (ii) the resolutions to be proposed at the EGM to approve and give effect to the Scheme.

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## EXPLANATORY STATEMENT

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### 20. BINDING EFFECT OF THE SCHEME

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

### 21. ACTIONS TO BE TAKEN

#### **Actions to be taken by Shareholders**

Disinterested Shareholders who are entitled to attend and vote at the Court Meeting and Shareholders who are entitled to attend and vote at the EGM are those whose names appear on the register of members of the Company as at the close of business on the Meeting Record Date, being Friday, 25 September 2020. In order to qualify to vote at the Court Meeting and the EGM, all transfers of share ownership accompanied by the relevant share certificates must be lodged with the Share Registrar at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong before 4:30 p.m. on Monday, 21 September 2020. A subsequent purchaser of Shares will need to obtain a proxy form from the transferor if he/she/it wishes to attend or vote at the Court Meeting or the EGM.

A **pink** form of proxy for use at the **Court Meeting** and a **white** form of proxy for use at the **EGM** are enclosed with this Scheme Document.

Whether or not you are able to attend the Court Meeting and/or the EGM or any adjournment thereof in person, if you are a Disinterested Shareholder, you are strongly urged to complete and sign the enclosed **pink** form of proxy in respect of the Court Meeting, and if you are a Shareholder, you are strongly urged to complete and sign the enclosed **white** form of proxy in respect of the EGM, in accordance with the instructions printed thereon, and to lodge them at the office of the Share Registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

**In order to be valid, the pink form of proxy for use at the Court Meeting should be lodged no later than 10:00 a.m. on Wednesday, 23 September 2020, which is 48 hours before the time appointed for holding the Court Meeting or any adjournment thereof. The pink form of proxy may also be handed to the Chairman of the Court Meeting (who will have absolute discretion on whether or not to accept it) at the Court Meeting. The white form of proxy for use at the EGM should be lodged no later than 10:30 a.m. on Wednesday, 23 September 2020, which is 48 hours before the time appointed for holding the EGM or any adjournment thereof, failing which it will not be valid.**

The completion and return of a form of proxy for the Court Meeting and/or the EGM will not preclude you from attending and voting in person at the relevant meeting or any adjournment thereof should you so wish, and, in such event, the relevant form of proxy will be revoked by operation of law.

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## EXPLANATORY STATEMENT

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If you do not appoint a proxy and you do not attend and vote at the Court Meeting and/or the EGM, you will still be bound by the outcome of the Court Meeting and/or the EGM if, among other things, the resolutions are passed by the requisite majorities of the Disinterested Shareholders or the Shareholders (as the case may be). You are therefore strongly urged to attend and vote at the Court Meeting and/or the EGM in person or by proxy.

Voting at the Court Meeting and the EGM will be taken by poll as required under the Listing Rules and the Takeovers Code.

The Company and the Offeror will make an announcement in relation to the results of the Court Meeting and the EGM no later than 7:00 p.m. on Friday, 25 September 2020 and, if all the resolutions are passed at those meetings, further announcements will be made in relation to, among other things, the results of the hearing of the petition for the sanction of the Scheme by the Grand Court and, if the Scheme is sanctioned, the Scheme Record Date, the Effective Date and the date of withdrawal of listing of Shares from the Stock Exchange in accordance with the requirements of the Takeovers Code and the Listing Rules.

### **Actions to be taken by Beneficial Owners whose Shares are held by a Registered Owner or deposited in CCASS**

No person shall be recognised by the Company as holding any Shares on trust.

If you are a Beneficial Owner whose Shares are registered in the name of a nominee, trustee, depositary or any other authorised custodian or third party, you should contact such Registered Owner to give instructions to and/or to make arrangements with such Registered Owner as to the manner in which the Shares beneficially owned by you should be voted at the Court Meeting and/or the EGM.

If you are a Beneficial Owner who wishes to attend the Court Meeting and/or the EGM personally, you should:

- (a) contact the Registered Owner directly to make the appropriate arrangements with the Registered Owner to enable you to attend and vote at the Court Meeting and/or the EGM and, for such purpose, the Registered Owner may appoint you as its proxy; or
- (b) arrange for some or all of the Shares registered in the name of the Registered Owner to be transferred and registered in your own name, if you wish to vote (in person or by proxy) at the Court Meeting and/or the EGM.

The appointment of a proxy by the Registered Owner at the Court Meeting and/or the EGM shall be in accordance with all relevant provisions in the articles of association of the Company.

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## EXPLANATORY STATEMENT

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In the case of the appointment of a proxy by the Registered Owner, the relevant forms of proxy shall be completed and signed by the Registered Owner and shall be lodged in the manner and no later than the latest time for lodging the relevant forms of proxy as more particularly set out in this Scheme Document.

The completion and return of a form of proxy for the Court Meeting and/or the EGM will not preclude the Registered Owner from attending and voting in person at the relevant meeting or any adjournment thereof should he/she/it so wish, and, in such event, the relevant form of proxy will be revoked by operation of law.

Instructions to and/or arrangements with the Registered Owner should be given or made in advance of the relevant latest time for the lodgement of the forms of proxy in respect of the Court Meeting and/or the EGM in order to provide the Registered Owner with sufficient time to complete his/her/its forms of proxy accurately and to submit them by the deadline. To the extent that any Registered Owner requires instructions from or arrangements to be made with any Beneficial Owner at a particular date or time in advance of the relevant latest time for the lodgement of the forms of proxy in respect of the Court Meeting and the EGM, such Beneficial Owner should comply with the requirements of such Registered Owner.

If you are a Beneficial Owner whose Shares are deposited in CCASS and registered under the name of HKSCC Nominees, you must, unless you are an Investor Participant, contact your broker, custodian, nominee or other relevant person who is, or has, in turn, deposited such Shares with, a CCASS participant regarding voting instructions to be given to such persons, or alternatively arrange for some or all of such Shares to be withdrawn from CCASS and transferred and registered in your own name prior to the Meeting Record Date, if you wish to vote (in person or by proxy) at the Court Meeting and/or the EGM. The procedure for voting in respect of the Scheme by the Investor Participants and the Other CCASS Participants with respect to Shares registered under the name of HKSCC Nominees shall be in accordance with the "General Rules of CCASS" and the "CCASS Operational Procedures" in effect from time to time.

Only Disinterested Shareholders whose Shares are registered in their own names in the register of members of the Company on the Meeting Record Date will be counted as members of the Company for the purpose of calculating whether or not a majority in number of members of the Company have approved the Scheme at the Court Meeting under Section 86 of the Companies Law. In accordance with the direction from the Grand Court, for the purpose of calculating whether or not a majority in number of members of the Company have approved the Scheme at the Court Meeting under section 86 of the Companies Law, HKSCC Nominees shall be permitted to vote once for and once against the Scheme in accordance with the instructions received by it from the Investor Participants and other CCASS Participants. Thus, (i) if HKSCC Nominees receives instructions to vote for the Scheme and instructions to vote against the Scheme, it shall vote once for and once against the Scheme in accordance with such instructions, and be counted as one Shareholder under the votes "for" the Scheme and as one Shareholder under the

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## EXPLANATORY STATEMENT

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votes “against” the Scheme; (ii) if HKSCC Nominees only receives instructions to vote for the Scheme, it shall vote once for the Scheme in accordance with such instructions, and be counted as one Shareholder under the votes “for” the Scheme; and (iii) if HKSCC Nominees only receives instructions to vote against the Scheme, it shall vote once against the Scheme in accordance with such instructions, and be counted as one Shareholder under the votes “against” the Scheme. Beneficial Owners who wish to individually vote or be counted for such purposes should make arrangements to be registered as a member of the Company in their own name prior to the Meeting Record Date.

### **22. EXERCISE YOUR RIGHT TO VOTE**

**IF YOU ARE A SHAREHOLDER OR A BENEFICIAL OWNER, YOU ARE STRONGLY URGED TO EXERCISE YOUR RIGHT TO VOTE OR GIVE INSTRUCTIONS TO THE RELEVANT REGISTERED OWNER TO VOTE IN PERSON OR BY PROXY AT THE COURT MEETING AND/OR AT THE EGM.**

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## EXPLANATORY STATEMENT

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IF YOU WISH TO BE COUNTED INDIVIDUALLY IN THE CALCULATION OF THE “MAJORITY IN NUMBER” REQUIREMENT AT THE COURT MEETING, YOU SHOULD MAKE ARRANGEMENTS TO BECOME A REGISTERED OWNER OF SOME OR ALL OF YOUR SHARES. IF YOU KEEP ANY SHARES IN A SHARE LENDING PROGRAMME, YOU ARE STRONGLY URGED TO RECALL ANY OUTSTANDING SHARES ON LOAN TO AVOID MARKET PARTICIPANTS USING BORROWED STOCK TO VOTE.

IF YOU ARE A REGISTERED OWNER HOLDING SHARES ON BEHALF OF BENEFICIAL OWNERS, YOU SHOULD INFORM THE RELEVANT BENEFICIAL OWNERS ABOUT THE IMPORTANCE OF EXERCISING THEIR RIGHT TO VOTE. YOU SHOULD ALSO REMIND THE RELEVANT BENEFICIAL OWNERS THAT IF THEY WISH TO BE COUNTED INDIVIDUALLY IN THE CALCULATION OF THE “MAJORITY IN NUMBER” REQUIREMENT AT THE COURT MEETING, THEY SHOULD MAKE ARRANGEMENTS TO BECOME A REGISTERED OWNER OF SOME OR ALL OF THEIR SHARES.

IF YOU ARE IN ANY DOUBT AS TO THE ACTION TO BE TAKEN, YOU SHOULD CONSULT YOUR LICENSED SECURITIES DEALER OR REGISTERED INSTITUTION IN SECURITIES, BANK MANAGER, SOLICITOR, PROFESSIONAL ACCOUNTANT OR OTHER PROFESSIONAL ADVISER.

### 23. BOARD, INDEPENDENT BOARD COMMITTEE, FINANCIAL ADVISER AND INDEPENDENT FINANCIAL ADVISER

The Offeror has appointed CICC as its financial adviser in connection with the Proposal.

The Board comprises seven Directors, including (i) one executive Director, namely Mr. Na Qinglin; (ii) three non-executive Directors, namely Mr. Chen Zhujiang, Mr. Huang Bin and Mr. Mo Shangyun; and (iii) three independent non-executive Directors, namely Mr. Deng Xinping, Mr. Ong Chor Wei and Mr. Zhao Wei.

An Independent Board Committee, which comprises all the independent non-executive Directors, namely Mr. Deng Xinping, Mr. Ong Chor Wei and Mr. Zhao Wei, has been established by the Board to advise the Disinterested Shareholders in connection with the Proposal and the Scheme, and in particular as to (i) whether the Proposal and the Scheme are fair and reasonable; and (ii) voting in respect of the Scheme at the Court Meeting.

Pursuant to Rule 2.8 of the Takeovers Code, the Independent Board Committee comprises all non-executive Directors who have no direct or indirect interest in the Proposal. Mr. Huang Bin, a non-executive Director, is a director of O-Net BVI and is interested in approximately 0.98% of the total number of issued shares of O-Net BVI (which is an Offeror Concert Party). Mr. Chen Zhujiang, a non-executive Director, is a director of both Kaifa and Shenzhen Kaifa, and is interested in approximately 0.010% of the issued shares of Shenzhen Kaifa. Mr. Mo Shangyun, a non-executive Director, is a senior management member of Shenzhen Kaifa and is interested in approximately 0.008%

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## EXPLANATORY STATEMENT

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of the issued shares of Shenzhen Kaifa. Both Kaifa and Shenzhen Kaifa are Offeror Concert Parties. The Board is of the view that Mr. Huang Bin, Mr. Chen Zhujiang and Mr. Mo Shangyun are regarded as being interested in the Proposal for the purposes of Rule 2.8 of the Takeovers Code and are accordingly excluded from being members of the Independent Board Committee.

The full text of the letter from the Independent Board Committee is set out on pages 44 to 45 of this Scheme Document.

The Company has, with the approval of the Independent Board Committee, appointed Somerley as the Independent Financial Adviser to advise the Independent Board Committee in connection with the Proposal and the Scheme. The full text of the letter from the Independent Financial Adviser is set out on pages 46 to 84 of this Scheme Document.

### 24. RECOMMENDATION

Your attention is drawn to the recommendations of the Independent Financial Adviser to the Independent Board Committee in respect of the Proposal and the Scheme as set out in the "Letter from the Independent Financial Adviser" on pages 46 to 84 of this Scheme Document. Your attention is also drawn to the recommendation of the Independent Board Committee in respect of the Proposal and the Scheme as set out in the "Letter from the Independent Board Committee" on pages 44 to 45 of this Scheme Document.

### 25. FURTHER INFORMATION

**Taking into account the recent development of the epidemic caused by coronavirus disease (COVID-19), the Company will implement the following prevention and control measures at the Court Meeting and the EGM to protect Shareholders from the risk of infection:**

- (a) compulsory body temperature checks will be conducted for every attending Shareholder or proxy at the entrance of the venue. Any person with a body temperature of over 37.3 degrees Celsius will not be admitted to the venue, but will be able to vote by submitting a voting slip to the scrutineer at the entrance of the venue;**
- (b) every attending Shareholder or proxy is required to wear a surgical mask throughout the Court Meeting and the EGM; and**
- (c) no refreshments will be served at the Court Meeting and/or the EGM.**

Furthermore, the Company wishes to advise all of the Shareholders, particularly any Shareholders who are subject to quarantine in relation to COVID-19, that they may appoint any person or the chairman of the Court Meeting and/or the EGM as a proxy to attend and vote on any of the resolutions, instead of attending the Court Meeting and/or the EGM in person.

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## EXPLANATORY STATEMENT

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**The Company will closely monitor and ascertain the regulations and measures introduced or to be introduced by the HKSAR government, and if necessary will make further announcements in case of any update regarding the precautionary measures to be implemented at the Court Meeting and/or the EGM.**

Further information in relation to the Proposal is set out in the appendices to this Scheme Document, all of which form part of this Explanatory Statement.

Shareholders and Scheme Shareholders should rely only on the information contained in this Scheme Document. None of the Company, the Offeror, CICC, the Independent Financial Adviser and the Share Registrar and their respective directors, employees, officers, agents, advisers, associates and affiliates and any other persons involved in the Proposal have authorised anyone to provide you with information that is different from what is contained in this Scheme Document.

### **26. PRECAUTIONARY LANGUAGE REGARDING FORWARD-LOOKING STATEMENTS**

This Scheme Document includes certain “forward-looking statements”. These statements are based on the current expectations of the management of the Offeror and/or the Company (as the case may be) and are naturally subject to uncertainty and changes in circumstances. The forward-looking statements contained in this Scheme Document include statements about the expected effects on the Company of the Proposal, the expected timing and scope of the Proposal, and all other statements in Scheme Document other than historical facts.

Forward-looking statements include, without limitation, statements typically containing words such as “intends”, “expects” and words of similar import. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by such forward-looking statements. These factors include, but are not limited to, the satisfaction of the conditions to the Proposal, as well as additional factors, such as general, social, economic and political conditions in the countries in which the Offeror and/or the Group operate or other countries which have an impact on the Offeror and/or the Group’s business activities or investments, interest rates, the monetary and interest rate policies of the countries in which the Offeror and/or the Group operate, inflation or deflation, foreign exchange rates, the performance of the financial markets in the countries in which the Offeror and/or Group operate and globally, changes in domestic and foreign laws, regulations and taxes, changes in competition and the pricing environments in the countries in which the Offeror and/or Group operate and regional or general changes in asset valuations and disruptions or reductions in travel and operations due to natural or man-made disasters, pandemics, epidemics or outbreak of infections or contagious diseases such as novel coronavirus. Other unknown or unpredictable factors could cause actual results to differ materially from those in the forward-looking statements.

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## EXPLANATORY STATEMENT

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All written and oral forward-looking statements attributable to the Offeror, the Company or persons acting on behalf of any of them are expressly qualified in their entirety by the cautionary statements above. The forward-looking statements included herein are made only as of the Latest Practicable Date. Any forward-looking statement contained in this Scheme Document based on past or current trends and/or activities of the Company should not be taken as a representation that such trends or activities will continue in the future. No statement in this Scheme Document is intended to be a profit forecast or to imply that the earnings of the Company for the current year or future years will necessarily match or exceed their respective historical or published earnings. Each forward-looking statement speaks only as at the date of the particular statement. Subject to the requirements of the Takeovers Code and other applicable laws and regulations, each of the Offeror and the Company expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in their expectations with regard thereto or any change in events, conditions of circumstances on which any such statement is based.

### **27. LANGUAGE**

For ease of reference, the Chinese names of natural persons or entities or enterprises established in the PRC and their English translations have been included in this Scheme Document and in any event of any inconsistency, the Chinese versions shall prevail, the Chinese names shall prevail. Save as aforementioned, in case of any inconsistency, the English language text of this Scheme Document and the accompanying forms of proxy shall prevail over the Chinese language text.

1. FINANCIAL SUMMARY

Set out below is a summary of the consolidated financial information of the Group for each of the three years ended 31 December 2019, 31 December 2018 and 31 December 2017 extracted from the annual reports of the Company for the years ended 31 December 2019, 31 December 2018 and 31 December 2017, respectively, and for the six months ended 30 June 2020 extracted from the Interim Results Announcement.

The auditors' reports issued by the auditors of the Company, PricewaterhouseCoopers, in respect of the audited consolidated financial statements of the Group for each of the three years ended 31 December 2019, 31 December 2018 and 31 December 2017 did not contain any modified opinion, emphasis of matter or material uncertainty related to going concern.

Summary of Consolidated Statement of Profit or Loss — by Function of Expenses

	(Unaudited) For the six months ended 30 June 2020 HKD'000	(Audited) For the year ended 31 December		
		2019 HKD'000	2018 HKD'000	2017 HKD'000
Revenue	1,491,212	2,580,961	2,516,422	2,035,085
Cost of sales	(1,117,702)	(1,830,704)	(1,728,430)	(1,308,612)
<b>Gross profit</b>	373,510	750,257	787,992	726,473
Other gains — net	18,382	12,689	64,213	30,420
Selling and marketing costs	(46,343)	(81,490)	(78,975)	(76,152)
Research and development expenses	(155,452)	(270,818)	(247,552)	(230,820)
Administrative expenses	(133,336)	(262,527)	(215,634)	(177,126)
Net impairment losses on financial and contract assets	—	(7,619)	(676)	—
<b>Operating profit</b>	56,761	140,492	309,368	272,795
Finance income	20,947	15,411	6,194	2,113
Finance expenses	16,871	(33,059)	(32,399)	(25,963)

	<b>(Unaudited)</b>	<b>(Audited)</b>		
	<b>For the six months ended</b>	<b>For the year ended 31 December</b>		
	<b>30 June</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>
Finance income/expenses				
— net	4,076	(17,648)	(26,205)	(23,850)
Share of losses of investments accounted for using equity method	(940)	(9,544)	(1,054)	(3)
<b>Profit before income tax</b>	<b>59,897</b>	<b>113,300</b>	<b>282,109</b>	<b>248,942</b>
Income tax expenses	(16,772)	(4,520)	(23,895)	(43,110)
<b>Profit for the period</b>	<b>43,125</b>	<b>108,780</b>	<b>258,214</b>	<b>205,832</b>
<b>Profit attributable to:</b>				
Owners of the Company	42,764	117,388	261,792	208,867
Non-controlling interests	361	(8,608)	(3,578)	(3,035)
	<b>43,125</b>	<b>108,780</b>	<b>258,214</b>	<b>205,832</b>
<b>Earnings per share for profit attributable to equity holders of the Company (HKD per share)</b>				
Basic	0.05	0.15	0.35	0.28
Diluted	0.05	0.15	0.34	0.27
Total dividends declared/paid	—	—	16,027	—
Total dividends per share	—	—	0.02	—

Consolidated Statement of Comprehensive Income

	(Unaudited)		(Audited)	
	For the six months ended		For the year ended 31 December	
	30 June 2020	2019	2018	2017
	HKD'000	HKD'000	HKD'000	HKD'000
<b>Profit for the period</b>	43,125	108,780	258,214	205,832
<b>Other comprehensive income</b>				
<i>Items that may be reclassified to profit or loss</i>				
Transfer of reserves to income statement upon disposal of a subsidiary	-	-	-	(2)
Currency translation differences	(26,959)	(45,854)	(84,839)	104,164
Release of fair value of equity investments at fair value through other comprehensive income	281	-	-	-
<i>Items that will not be reclassified to profit or loss</i>				
Remeasurements of post-employment benefit obligations	-	(1,015)	-	-
Changes in the fair value of equity investments at fair value through other comprehensive income	(4,622)	(4,176)	(3,024)	-
<b>Other comprehensive (loss)/income for the period</b>	-	(51,045)	(87,863)	104,162
<b>Total comprehensive income for the period</b>	11,825	57,735	170,351	309,994
<b>Attributable to:</b>				
- Owners of the Company	11,464	66,305	173,929	312,721
- Non-controlling interests	361	(8,570)	(3,578)	(2,727)
<b>Total comprehensive income for the period</b>	11,825	57,735	170,351	309,994

Save as disclosed above, there was no item of any income or expense which was material in respect of the consolidated financial results of the Group for each of the three years ended 31 December 2017, 2018 and 2019 and for the six months ended 30 June 2020.

## **2. CONSOLIDATED FINANCIAL STATEMENTS**

The Company is required to set out or refer to in this Scheme Document the consolidated statement of financial position, consolidated statement of cash flows and any other primary statement as shown in (i) the audited consolidated financial statements of the Group for the year ended 31 December 2019 (the “**2019 Financial Statements**”); (ii) the audited consolidated financial statements of the Group for the year ended 31 December 2018 (the “**2018 Financial Statements**”); (iii) the audited consolidated financial statements of the Group for the year ended 31 December 2017 (the “**2017 Financial Statements**”); and (iv) the unaudited condensed interim financial statements of the Group for the six months ended 30 June 2020 (the “**2020 Interim Financial Statements**”), together with the notes to the relevant published financial statements which are of major relevance to the appreciation of the above financial information.

The 2019 Financial Statements are set out on pages 101 to 185 of the annual report of the Company for the year ended 31 December 2019 (the “**Annual Report 2019**”), which was published on 24 April 2020. The Annual Report 2019 is posted on the Company’s website <http://www.o-netcom.com/> and the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk). Please also see below a direct link to the Annual Report 2019:

*<https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0424/2020042401497.pdf>*

The 2018 Financial Statements are set out on pages 98 to 189 of the annual report of the Company for the year ended 31 December 2018 (the “**Annual Report 2018**”), which was published on 29 April 2019. The Annual Report 2018 is posted on the Company’s website <http://www.o-netcom.com/> and the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk). Please also see below a direct link to the Annual Report 2018:

*<https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0429/ltn201904291683.pdf>*

The 2017 Financial Statements are set out on pages 101 to 175 of the annual report of the Company for the year ended 31 December 2017 (the “**Annual Report 2017**”), which was published on 27 April 2018. The Annual Report 2017 is posted on the Company’s website <http://www.o-netcom.com/> and the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk). Please also see below a direct link to the Annual Report 2017:

*<https://www1.hkexnews.hk/listedco/listconews/sehk/2018/0427/ltn20180427624.pdf>*

The 2020 Interim Financial Statements are set out on pages 2 to 16 of the Interim Results Announcement, which was published on 4 August 2020. The Interim Results Announcement is posted on the Company’s website <http://www.o-netcom.com> and the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk). Please also see below a direct link to the Interim Results Announcement:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0804/2020080400903.pdf>

The 2019 Financial Statements (but not any other part of the Annual Report 2019), the 2018 Financial Statements (but not any other part of the Annual Report 2018), the 2017 Financial Statements (but not any other part of the Annual Report 2017) and the 2020 Interim Financial Statements (but not any other part of the Interim Results Announcement) are incorporated by reference into this Scheme Document and form part of this Scheme Document.

**3. STATEMENT OF INDEBTEDNESS AND CONTINGENT LIABILITIES**

**Indebtedness**

As at the close of business on 30 June 2020, being the most recent practicable date for the purpose of this indebtedness statement prior to the printing of this Scheme Document, the Group had total indebtedness summarised below:

	<b>As at 30 June 2020 HKD'000</b>
<b>Bank loans, advances, overdrafts and long term notes:</b>	
<b>Current</b>	
Short-term bank loans — unsecured	674,200
<b>Non-current</b>	
Short-term bank loans — unsecured	—
Total bank loans, advances, overdrafts and long term notes	<u>674,200</u>

### **Contingent liabilities and guarantees**

As at the close of business on 30 June 2020, being the most recent practicable date for the purpose of this indebtedness statement prior to the printing of this Scheme Document, the Group did not have any outstanding contingent liabilities and guarantees.

Save as aforesaid and apart from intra-group liabilities, intra-group guarantees, and normal trade payables, the Group did not, as at 30 June 2020, have any outstanding (i) debt securities, whether issued and outstanding, authorised or otherwise created but unissued, or term loans, whether guaranteed, unguaranteed, secured (whether the security is provided by the Group or by third parties) or unsecured; (ii) other borrowings or indebtedness in the nature of borrowings including bank overdrafts and liabilities under acceptances (other than normal trade bills) or acceptance credits or hire purchase commitments, whether guaranteed, unguaranteed, secured or unsecured; (iii) mortgage or charges; or (iv) guarantees or other material contingent liabilities.

#### **4. MATERIAL CHANGE**

The Directors have confirmed that, save for the following matters, there has been no material changes in the financial or trading position or outlook of the Group since 31 December 2019, being the date to which the latest published audited consolidated financial statements of the Group were made up, up to and including the Latest Practicable Date:

- (a) The outbreak of the COVID-19 pandemic has resulted in the following unfavourable impacts on the business and operating environment of the Group:
- delay in shipment of orders: with the outbreak of COVID-19 affecting many countries around the world, its disruption and negative impact on the global economy and industry supply chains remains uncertain.
  - shortage of labour: the public health measures put in place in many countries to prevent the spread of the COVID-19 pandemic have disrupted the Group's production causing the temporary suspension of operations in both some of the Group's factories and the Group's suppliers' factories. Such polices as the lockdowns, quarantine, social distancing and other pandemic containment measures have inevitably reduced the Group's production capacity and efficiency, and incurred incremental costs and exceptional expenses, contributing to the adverse material impact on both the operating and net profit of the first half of 2020 as disclosed in the Interim Results Announcement.

- (b) As disclosed in the Interim Results Announcement for the six months ended 30 June 2020 (the “**Current Period**”), the Group recorded an unaudited profit attributable to the Shareholders of approximately HK\$42.8 million for the six months ended 30 June 2020, as compared to that of approximately HK\$83.1 million for the six months ended 30 June 2019 (the “**Previous Period**”), which was mainly attributable to, among others, the factors as set out below:
- (i) a decrease in gross profit of approximately HK\$40.7 million from approximately HK\$414.2 million for the Previous Period to approximately HK\$373.5 million for the Current Period, which was mainly attributable to: (a) the increase in labour and raw materials costs as higher labour costs were incurred during the Chinese New Year and higher demand for raw materials in response to the supply shock triggered by COVID-19 pandemic during the Current Period; and (b) certain products sold by the Group are no longer competitive with the market and have to be written-off due to the rapid development of competing technologies;
  - (ii) an increase in administrative expenses of approximately HK\$20.3 million from approximately HK\$113.0 million for the Previous Period to approximately HK\$133.3 million for the Current Period, which was primarily attributable to the increase in number of employees and the professional fees and other set up costs for the new branches and operations established in Boston and Thailand during the Current Period; and
  - (iii) an increase in net finance income of approximately HK\$19.4 million from a net finance expense of approximately HK\$15.4 million for the Previous Period to a net finance income of approximately HK\$4.0 million for the Current Period as a result of the recognition of a net exchange gain of approximately HK\$19.9 million, as compared to a net exchange loss of approximately HK\$1.0 million for the Previous Period.

## 1. RESPONSIBILITY STATEMENT

This Scheme Document includes particulars given in compliance with the Takeovers Code for the purpose of providing information with regard to the Proposal, the Offeror and the Company.

The directors of the Offeror, Optical Alpha, Mandarin Assets, O-Net BVI and O-Net SAPL jointly and severally accept full responsibility for the accuracy of the information contained in this Scheme Document (other than any information relating to the Group) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this Scheme Document (other than those expressed by the Directors) have been arrived at after due and careful consideration and there are no other facts not contained in this Scheme Document the omission of which would make any statements in this Scheme Document misleading.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this Scheme Document relating to the Group and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this Scheme Document expressed by the Directors have been arrived at after due and careful consideration and there are no other facts not contained in this Scheme Document the omission of which would make any statements in this Scheme Document misleading.

## 2. SHARE CAPITAL OF THE COMPANY

As at the Latest Practicable Date:

- (a) the authorised share capital of the Company was HK\$100,000,000 divided into 10,000,000,000 Shares;
- (b) the issued and paid-up share capital of the Company comprised 834,028,240 Shares;
- (c) all of the Shares currently in issue ranked *pari passu* in all respects including as to capital, dividends and voting;
- (d) no new Shares had been issued by the Company since 31 December 2019 (being the end of the last financial year of the Company); and
- (e) other than the Share Awards as disclosed in the section headed “10. Information on the Offeror and Offeror Concert Parties–(c) Mr. Na Related Shareholders–O-Net SAPL” in the Explanatory Statement, there were no outstanding options, warrants or conversion rights affecting the Shares.

## 3. MARKET PRICES

- (a) The table below shows the closing market prices of the Shares as quoted on the Stock Exchange (i) on the Latest Practicable Date; (ii) on the Last Trading Day; and (iii) at the end of each month during the Relevant Period:

<b>Date</b>	<b>Closing price per Share HK\$</b>
28 August 2020, being the Latest Practicable Date	6.29
3 July 2020, being the Last Trading Day	5.26
The last Business Day at the end of each calendar month during the Relevant Period:	
31 January 2020	4.05
28 February 2020	4.25
31 March 2020	4.72
29 April 2020	4.81
29 May 2020	5.45
30 June 2020	5.10
31 July 2020	6.25

- (b) During the Relevant Period, the highest closing price of the Shares was HK\$6.29 per Share as quoted on the Stock Exchange on 28 August 2020, being the Latest Practicable Date, and the lowest closing price of the Shares was HK\$3.93 per Share as quoted on the Stock Exchange on 30 January 2020.
- (c) The Cancellation Price of HK\$6.50 per Scheme Share represents a premium of approximately 23.57% over the closing price of HK\$5.26 per Share as quoted on the Stock Exchange on the Last Trading Day.

## 4. DISCLOSURE OF INTERESTS IN THE SHARES

As at the Latest Practicable Date:

- (a) save as disclosed below, none of the Directors were interested within the meaning of Part XV of the SFO in any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares:

Name of Director	Capacity	Long position/ short position	Number of ordinary shares held	Approximate percentage of the Company's issued share capital
Mr. Na Qinglin	Interest of a controlled corporation	Long position	6,232,000 (Note)	0.75%
Mr. Deng Xinping	Beneficial owner	Long position	500,000	0.06%
Mr. Ong Chor Wei	Beneficial owner	Long position	500,000	0.06%
Mr. Zhao Wei	Beneficial owner	Long position	500,000	0.06%

*Note:* These include (i) 5,232,000 Shares held by Mandarin Assets, a company wholly and beneficially owned by Mr. Na; and (ii) 1,000,000 awarded shares granted to Mr. Na according to the Restricted Share Award Scheme. These 1,000,000 awarded shares which were granted to Mr. Na under the Restricted Share Award Scheme are expected to lapse on the Effective Date pursuant to the terms of the Restricted Share Award Scheme. For details, please see Notes 3 and 4 to the shareholding table of the Company set out in the section headed "6. Shareholding Structure — Shareholding table" in the Explanatory Statement.

- (b) no subsidiary of the Company, no pension fund of the Company or of a subsidiary of the Company and no person who is presumed to be acting in concert with the Company by virtue of class (5) of the definition of "acting in concert" under the Takeovers Code or who is an associate of the Company by virtue of class (2) of the definition of "associate" under the Takeovers Code (but excluding any exempt principal traders and exempt fund managers) owned or controlled any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares;
- (c) there was no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code which existed between the Company, or any person who is presumed to be acting in concert with the Company by virtue of classes (1), (2), (3) or (5) of the definition of "acting in concert" under the Takeovers Code or who is an associate of the Company by virtue of classes (2), (3) and (4) of the definition of "associate" under the Takeovers Code, and any other person;

- (d) no fund manager (other than exempt fund managers) connected with the Company managed any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares on a discretionary basis;
- (e) neither the Company nor any Directors had borrowed or lent any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares save for any borrowed shares which have been either on-lent or sold;
- (f) save as disclosed in the sections headed “6. Shareholding Structure” in the Explanatory Statement, the Offeror or any person acting in concert with it did not own or control any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares;
- (g) save for the interest of Mr. Na as disclosed in (a) above, Mr. Na, in his capacity as the sole director of the Offeror, had no other interests within the meaning of Part XV of the SFO in any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares and no party acting in concert with it owned or controlled any Shares or any convertible securities, warrants, options or derivatives in respect of Shares;
- (h) none of the Offeror and the Offeror Concert Parties had received an irrevocable commitment to vote for or against the Scheme at the Court Meeting;
- (i) save for the Mr. Na Related Shareholders and Kaifa Irrevocable Undertakings, neither the Offeror nor any party acting in concert with it had received any irrevocable commitment to vote for or against any of the resolutions to be proposed at the EGM. Under the terms of the Consortium Agreement, the Mr. Na Related Shareholders and Kaifa had provided the Mr. Na Related Shareholders and Kaifa Irrevocable Undertakings, pursuant to which each of the Mr. Na Related Shareholders and Kaifa has irrevocably undertaken and agreed that, among others, it will vote in favour of the resolutions to be proposed at the EGM to approve and give effect to the reduction of the number of issued Shares in the share capital of the Company and any resolutions proposed at the EGM to assist the implementation of the Scheme or are necessary for the Scheme to become effective;
- (j) no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code existed between any person and the Offeror or any party acting in concert with it; and
- (k) none of the Offeror or any party acting in concert with it had borrowed or lent any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares.

## 5. DEALINGS IN THE SHARES

(a) During the Relevant Period:

- (i) the following directors exercised share options granted to him pursuant to the Share Option Scheme, the details of which were stated below. Save as disclosed in this sub-paragraph, no Director had dealt for value in any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares:

	Date of grant of the Share Options	Exercisable period	Date of exercise of the Share Option	No. of Shares involved	Exercise price per Share (HK\$)	Total sum paid for the exercise of the Share Option (HK\$)
Mr. Deng Xiping	1 June 2012	2 June 2012 to 8 April 2020 (Note a)	17 January 2020	500,000	1.91	955,000
Mr. Ong Chor Wei	1 June 2012	2 June 2012 to 8 April 2020 (Note a)	1 April 2020	500,000	1.91	955,000
Mr. Zhao Wei	9 April 2014	28 March 2015 to 8 April 2020 (Note b)	7 February 2020	500,000	2.4	1,200,000

Notes:

- (a) The vesting period of 40% of the share options was commenced on 2 June 2012, and the remaining 60% of the share options was commenced on 2 June 2013, equally over a period of 3 years.
- (b) The vesting period was commenced on 28 March 2015, equally over a period of 5 years.
- (ii) none of the Offeror, the sole director of the Offeror or any party acting in concert with it had dealt for value in any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares;
- (iii) no person who had an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Offeror or any party acting in concert with it had dealt for value in the Shares or any convertible securities, warrants, options or derivatives in respect of any Shares;
- (iv) no person who had irrevocably committed themselves to accept or reject the Proposal had dealt for value in Shares or any convertible securities, warrants, options or derivatives in respect of any Shares; and

- (b) During the period commencing from 8 July 2020 (being the date of commencement of the offer period) and ending on the Latest Practicable Date:
- (i) no subsidiary of the Company, no pension fund of the Company or of a subsidiary of the Company and no person who is presumed to be acting in concert with the Company by virtue of class (5) of the definition of “acting in concert” under the Takeovers Code or who is an associate of the Company by virtue of class (2) of the definition of “associate” under the Takeovers Code (but excluding any exempt principal traders and exempt fund managers) had dealt for value in any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares;
  - (ii) no person who had an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company, or any person who is presumed to be acting in concert with the Company by virtue of classes (1), (2), (3) and (5) of the definition of “acting in concert” under the Takeovers Code or who is an associate of the Company by virtue of classes (2), (3) and (4) of the definition of “associate” under the Takeovers Code had dealt for value in any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares; and
  - (iii) no fund manager (other than exempt fund managers) connected with the Company who managed any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares on a discretionary basis had dealt for value in any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares.

## 6. DISCLOSURE OF INTERESTS IN OFFEROR’S SHARES

As at the Latest Practicable Date, Optical Alpha, which was held as to 3.90%, 44.46% and 10.53% by Mandarin Assets, O-Net BVI and O-Net SAPL, respectively, held 82.21% of the entire shareholding of Offeror. Mandarin Assets is wholly-owned by Mr. Na. O-Net SAPL is wholly owned by O-Net BVI, which is controlled as to more than 30% by Mr. Na. For details, please see the section headed “10. Information on the Offeror and Offeror Concert Parties” in the Explanatory Statement.

As at the Latest Practicable Date, save as disclosed above, none of the Company and the Directors were interested in any shares of the Offeror or any convertible securities, warrants, options or derivatives in respect of any shares of the Offeror.

## 7. DEALINGS IN OFFEROR’S SHARES

During the Relevant Period, neither the Company nor any of the Directors had dealt for value in any shares of the Offeror or any convertible securities, warrants, options or derivatives in respect of any shares of the Offeror.

**8. ARRANGEMENTS IN CONNECTION WITH THE PROPOSAL**

As at the Latest Practicable Date:

- (a) save for the Consortium Agreement, the Mr. Na Related Shareholders and Kaifa Irrevocable Undertakings, the Mandarin Assets Arrangement Part I, the Mandarin Assets Arrangement Part II, the Offshore Subscription Agreement, the Onshore Subscription Agreement, the Offeror Subscription Agreement, the Subscription Investor's Irrevocable Undertakings, the Optical Alpha Shareholders' Loan Agreement, the Optical Alpha Personal Guarantee, the Optical Alpha Shareholders' Agreement and the Offeror Shareholder's Loan Agreement, there was no agreement or arrangement (whether by way of option, indemnity or otherwise) in relation to the Shares or shares of the Offeror or any of its concert parties which might be material to the Proposal;
- (b) save for the Consortium Agreement, the Mr. Na Related Shareholders and Kaifa Irrevocable Undertakings, the Mandarin Assets Arrangement Part I, the Mandarin Assets Arrangement Part II, the Offshore Subscription Agreement, the Onshore Subscription Agreement, the Offeror Subscription Agreement, the Subscription Investor's Irrevocable Undertakings, the Optical Alpha Shareholders' Loan Agreement, the Optical Alpha Personal Guarantee, the Optical Alpha Shareholders' Agreement and the Offeror Shareholder's Loan Agreement, there were no agreements, arrangements or understanding (including any compensation arrangement) between the Offeror or any party acting in concert with the Offeror and any of the Directors, recent Directors, Shareholders or recent Shareholders having any connection with or dependence upon the Proposal;
- (c) save for the facility agreement entered into between the Offeror and CMB in July 2020 in relation to the Offeror Acquisition Financing (pursuant to which the Offeror had agreed to, among others, provide a share charge on all the issued Shares to be acquired by it pursuant to the Proposal in favour of CMB after the Effective Date), there was no agreement, arrangement or understanding between the Offeror and any other person in relation to the transfer, charge or pledge of the Shares to be acquired pursuant to the Proposal and the Offeror had no intention to transfer, charge or pledge any Shares acquired pursuant to the Proposal to any other person. As at the Latest Practicable Date, CMB did not hold any securities in the Company;
- (d) there was no agreement or arrangement to which the Offeror or any of its concert parties was a party which relates to circumstances in which the Offeror may or may not invoke or seek to invoke a Condition to the Proposal;
- (e) neither the Offeror nor its concert parties had received any irrevocable commitment to vote for or against the Proposal at the Court Meeting;

- (f) save for the Mr. Na Related Shareholders and Kaifa Irrevocable Undertakings, neither the Offeror nor any party acting in concert with it had received any irrevocable commitment to vote for or against any of the resolutions to be proposed at the EGM. Under the terms of the Consortium Agreement, the Mr. Na Related Shareholders and Kaifa had provided the Mr. Na Related Shareholders and Kaifa Irrevocable Undertakings, pursuant to which each of the Mr. Na Related Shareholders and Kaifa has irrevocably undertaken and agreed that, among others, it will vote in favour of the resolutions to be proposed at the EGM to approve and give effect to the reduction of the number of issued Shares in the share capital of the Company and any resolutions proposed at the EGM to assist the implementation of the Scheme or are necessary for the Scheme to become effective;
- (g) save for the Consortium Agreement, the Mr. Na Related Shareholders and Kaifa Irrevocable Undertakings, the Mandarin Assets Arrangement Part I, the Mandarin Assets Arrangement Part II, the Offshore Subscription Agreement, the Onshore Subscription Agreement, the Offeror Subscription Agreement, the Subscription Investor's Irrevocable Undertakings and the Optical Alpha Shareholders' Loan Agreement, the Optical Alpha Personal Guarantee, the Optical Alpha Shareholders' Agreement and the Offeror Shareholder's Loan Agreement, there is no agreement, arrangement or understanding between (i) any Shareholder and (ii)(a) the Offeror and the Offeror Concert Parties; or (b) the Company, its subsidiaries or associated companies; and
- (h) there is no special deal (as defined in Rule 25 of the Takeovers Code) between (i) any Shareholder and (ii)(a) the Offeror and the Offeror Concert Parties; or (b) the Company, its subsidiaries or associated companies.

## 9. ARRANGEMENTS IN CONNECTION WITH THE DIRECTORS

As at the Latest Practicable Date:

- (a) other than the Cancellation Price, no arrangement was in place for any benefit (other than statutory compensation required under appropriate laws) would be given to any Director as compensation for loss of office or otherwise in connection with the Proposal;
- (b) save for the Consortium Agreement, the Mr. Na Related Shareholders Irrevocable Undertakings, the Mandarin Assets Arrangement Part I, the Mandarin Assets Arrangement Part II and the Optical Alpha Personal Guarantee, there were no agreements, arrangements or understanding (including any compensation arrangement) between any Director and any other person which are conditional on or dependent upon the outcome of the Proposal or otherwise connected with the Proposal; and
- (c) save for the Consortium Agreement, there were no material contracts entered into by the Offeror in which any Director has a material personal interest.

## 10. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into any service contract with the Company or any of its subsidiaries or associated companies which (i) (including both continuous and fixed term contracts) had been entered into or amended within 6 months before the commencement of the offer period; (ii) are continuous contracts with a notice period of 12 months or more; or (iii) are fixed term contracts with more than 12 months to run irrespective of the notice period.

## 11. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration or claim of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

## 12. MATERIAL CONTRACTS

Save as disclosed below, there were no material contracts entered into by the Company or any of its subsidiaries after the date which was two years before commencement of the offer period up to and including the Latest Practicable Date, other than contracts entered into in the ordinary course of business carried on or intended to be carried on by the Company or any of its subsidiaries:

- (a) the agreement dated 21 April 2017 ("**3SP Technologies Acquisition Agreement**") entered into between O-Net Communications Holdings Limited ("**O-Net Communications**"), a wholly-owned subsidiary of the Company, and Advance Photonics Investments Limited ("**Advance Photonics**") in relation to the purchase of the entire issued share capital of 3SP Technologies, a company incorporated in France, by O-Net Communications from Advance Photonics at a consideration of US\$19.2 million and the purchase of a shareholder's loan of 3SP Technologies by O-Net Communications from Advance Photonics on a dollar for dollar basis; and
- (b) a supplemental agreement dated 19 March 2019 entered into among O-Net Communications, Pha Nga Bay Limited and Advance Photonics, pursuant to which the parties agreed to restructure the transaction under the 3SP Technologies Acquisition Agreement relating to the acquisition of 3SP Technologies, including: (a) O-Net Communications agreed to subscribe for 9,999 ordinary shares of Advance Photonics at the consideration of HK\$9,999; (b) O-Net Communications agreed to advance to Advance Photonics a loan in the principal amount of US\$13,500,000 for repayment of the amount due to Pha Nga Bay Limited; and (c) Pha Nga Bay Limited agreed to convert one ordinary share of Advance Photonics into one non-voting deferred shares of Advance Photonics at the consideration of US\$6,382,718.08.

**13. EXPERTS AND CONSENTS**

The following are the qualifications of the experts which have given advice which is contained in this Scheme Document:

<b>Name</b>	<b>Qualification</b>
China International Capital Corporation Hong Kong Securities Limited	a corporation licensed to carry out Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 5 (advising on futures contracts) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the financial adviser to the Offeror in relation to the Proposal
Somerley Capital Limited	a corporation licensed to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser to the Independent Board Committee on the Proposal and the Scheme

Each of the above experts has given and has not withdrawn its written consent to the issue of this Scheme Document with the inclusion therein of the opinions, reports and/or letters and/or the references to its name and/or opinions, reports and/or letters in the form and context in which they respectively appear.

**14. MISCELLANEOUS**

- (a) The address of Mr. Na is Unit 1608, West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong.
- (b) The registered office of the Offeror is at Kingston Chambers, P.O. Box 173, Road Town, Tortola, BVI.
- (c) The registered office of CICC is at 29/F One International Finance Centre, 1 Harbour View Street, Central, Hong Kong.
- (d) The principal parties acting in concert with the Offeror are Mr. Na, Optical Alpha, the Mr. Na Related Shareholders, Kaifa, the Equity Investor and the Subscription Investor.
- (e) The registered office of Optical Alpha is at Kingston Chambers, P.O. Box 173, Road Town, Tortola, BVI.
- (f) The registered office of Mandarin Assets is at Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, BVI.

- (g) The registered office of O-Net BVI is at Commerce House, Wickhams Cay 1, P.O. Box 3140, Road Town, Tortola, VG1110, BVI.
- (h) The registered office of O-Net SAPL is at Palm Grove House, P.O. Box 438, Road Town, Tortola, BVI.
- (i) The registered office of Kaifa is at Room 2201, Hong Kong Worsteds Mills Industrial Building, 31-39 Wo Tong Tsui Street, Kwai Chung, New Territories, Hong Kong.
- (j) The registered office of the Equity Investor is at Cayman Corporate Centre, 27 Hospital Road, George Town, Grand Cayman KY1-9008, Cayman Islands.
- (k) The registered office of the Subscription Investor is at 18th Floor, Block C, Shenzhen Guoji Chuangxin Centre, No. 1006, Shennan Road, Xintian Community, Huafu Road, Futian District, Shenzhen, the PRC\* (中國深圳市福田區華富街道新田社區深南大道1006號深圳國際創新中心C棟18層).
- (l) The registered office of the Company is at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The Company's principal place of business in Hong Kong is at Unit 1608, West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong.

## 15. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection from the date of this Scheme Document until the Effective Date or the date on which the Scheme lapses or is withdrawn, whichever is the earlier (1) at the Hong Kong office of the Company, at Unit 1608, West Tower, Shun Tak Centre, 168–200 Connaught Road Central, Hong Kong during normal business hours from 9:00 a.m. to 5:00 p.m. (except Saturdays, Sundays and public holidays in Hong Kong) (Hong Kong time), (2) on the website of the Company <http://www.o-netcom.com> and (3) on the website of the SFC at <http://www.sfc.hk>:

- (a) the memorandum and articles of association of the Offeror;
- (b) the memorandum and articles of association of the Company;
- (c) the annual reports of the Company for each of the year ended 31 December 2019 and the year ended 31 December 2018;
- (d) the Interim Results Announcement;
- (e) the letter from the Board, the text of which is set out on pages 22 to 43 of this Scheme Document;
- (f) the letter from the Independent Board Committee, the text of which is set out on pages 44 to 45 of this Scheme Document;

- (g) the letter from the Independent Financial Adviser, the text of which is set out on pages 46 to 84 of this Scheme Document;
- (h) the written consents referred to in the section headed “13. *Experts and Consents*” in Appendix II — General Information;
- (i) the material contracts referred to in the section headed “12. *Material Contracts*” in Appendix II — General Information;
- (j) the Consortium Agreement; and
- (k) this Scheme Document.

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## SCHEME OF ARRANGEMENT

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IN THE GRAND COURT OF THE CAYMAN ISLANDS  
FINANCIAL SERVICES DIVISION

Cause No. FSD 173 of 2020 (NSJ)

IN THE MATTER OF SECTIONS 15 AND 86 OF THE COMPANIES LAW (2020 REVISION)  
(AS AMENDED)  
AND IN THE MATTER OF THE GRAND COURT RULES 1995 ORDER 102  
AND IN THE MATTER of O-NET TECHNOLOGIES (GROUP) LIMITED  
昂納科技(集團)有限公司

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### SCHEME OF ARRANGEMENT

Between

**O-Net Technologies (Group) Limited**  
昂納科技(集團)有限公司

and

**THE SCHEME SHAREHOLDERS**  
(as hereinafter defined)

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(A) In this Scheme of Arrangement, unless inconsistent with the subject or context, the following expressions shall have the meanings respectively set opposite them:

<b>“acting in concert”</b>	has the same meaning ascribed to it in the Takeovers Code
<b>“Board”</b>	the board of Directors
<b>“Business Day”</b>	a day other than a Saturday, Sunday or a public holiday in Hong Kong or the Cayman Islands
<b>“BVI”</b>	the British Virgin Islands

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## SCHEME OF ARRANGEMENT

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<b>“Cancellation Price”</b>	the cancellation price of HK\$6.50 per Scheme Share payable by the Offeror to the Scheme Shareholders pursuant to the Scheme of Arrangement for every Scheme Share cancelled and extinguished in the form of (i) cash for Scheme Shareholders (excluding Mandarin Assets, O-Net BVI, O-Net SAPL and Kaifa); (ii) Mr Na Related Shareholders Cancellation Consideration for Mandarin Assets, O-Net BVI and O-Net SAPL; or (iii) Kaifa Cancellation Consideration for Kaifa
<b>“CICC”</b>	China International Capital Corporation Hong Kong Securities Limited, a registered institution under the SFO to carry out Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 5 (advising on futures contracts) and Type 6 (advising on corporate finance) regulated activities under the SFO, the financial adviser to the Offeror in relation to the Proposal
<b>“CICC group”</b>	CICC and persons controlling, controlled by or under the same control as CICC
<b>“Companies Law”</b>	the Companies Law Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
<b>“Company”</b>	O-Net Technologies (Group) Limited 昂納科技(集團)有限公司, an exempted company incorporated in the Cayman Islands on 12 November 2009 with limited liability, the Shares are currently listed on the Main Board of the Stock Exchange (stock code: 877)
<b>“Composite Scheme Document”</b>	the composite scheme document of the Company and the Offeror issued to, among others, the Disinterested Shareholders containing, inter alia, further details of the Proposal
<b>“Court Meeting”</b>	a meeting of the Disinterested Shareholders convened at the direction of the Grand Court at which the Scheme of Arrangement will be voted upon
<b>“Director”</b>	a director of the Company

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## SCHEME OF ARRANGEMENT

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<b>“Disinterested Shareholders”</b>	Shareholders other than the Offeror and the Offeror Concert Parties ((i) except for the holding of Shares by CICC group in the capacity of an exempt principal trader or exempt fund manager for the purposes of the Takeovers Code and (ii) excluding (a) Shares held by the CICC group for and on behalf of its non-discretionary investment clients which the CICC group does not have control of the voting rights attached to the relevant Shares and/or (b) Shares held by the Guosen Securities Group for and on behalf of its non-discretionary investment clients which the Guosen Securities Group does not have control of the voting rights attached to the relevant Shares)
<b>“Effective Date”</b>	the date on which the Scheme of Arrangement, if approved and sanctioned by the Grand Court, becomes effective in accordance with its terms and the Companies Law, being the date on which a copy of the order of the Grand Court sanctioning the Scheme of Arrangement and confirming the reduction of issued share capital resulting from the cancellation and extinguishment of the Scheme Shares is delivered to the Registrar of Companies in the Cayman Islands for registration pursuant to section 86(3) of the Companies Law, which is expected to be Thursday, 15 October 2020 (Cayman Islands time)
<b>“Equity Investor”</b>	LVC Technology Legend Limited, a company incorporated in the Cayman Islands with limited liability and wholly owned by LVC Prime LP, an exempted limited partnership of the Cayman Islands
<b>“Executive”</b>	the Executive Director of the Corporate Finance Division of the Securities and Futures Commission of Hong Kong or any delegate thereof
<b>“Grand Court”</b>	the Grand Court of the Cayman Islands
<b>“Guosen Securities”</b>	Guosen Securities Co., Ltd. (國信證券股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 2736)
<b>“Guosen Securities Group”</b>	Guosen Securities, its subsidiaries and entities of which Guosen Securities owns or controls 20% of more of their voting rights

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## SCHEME OF ARRANGEMENT

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<b>“HC Capital”</b>	HC Capital Limited, a company incorporated in Hong Kong with limited liability and is wholly-owned by Hsin Chong International Holdings, which is in turn held as to 79.1% by HSBC Trustee (HK) Limited as the executor of the will of the late Dr. Meou-tsen Geoffrey Yeh. HC Capital Limited is an Offeror Concert Party
<b>“HK\$”</b>	Hong Kong dollar(s), the lawful currency of Hong Kong
<b>“Hong Kong”</b>	the Hong Kong Special Administrative Region of the People’s Republic of China
<b>“Independent Board Committee”</b>	the independent board committee of the Company established by the Board to make a recommendation to the Disinterested Shareholders in respect of, among others, the Proposal and the Scheme of Arrangement, comprising Mr Deng Xinping, Mr Ong Chor Wei and Mr Zhao Wei
<b>“Independent Financial Adviser”</b>	Somerley Capital Limited, the independent financial adviser to the Independent Board Committee appointed pursuant to Rule 2.1 of the Takeovers Code in relation to, among others, the Proposal and the Scheme of Arrangement, being a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
<b>“Independent Shareholders”</b>	the Shareholders other than the Offeror and the Offeror Concert Parties (except for the holding of Shares by CICC group in the capacity of an exempt principal trader or exempt fund manager for the purposes of the Takeovers Code and excluding Shares held on behalf of non-discretionary investment clients of the CICC group and/or by Guosen Securities Group held for its non-discretionary investment clients which Guosen Securities Group do not have control of the voting rights attached to the relevant Shares)

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## SCHEME OF ARRANGEMENT

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<b>“Kaifa”</b>	Kaifa Technology (H.K) Limited, a company incorporated in Hong Kong with limited liability and is a wholly-owned subsidiary of Shenzhen Kaifa Technology Co., Ltd (深圳長城開發科技股份有限公司), a company incorporated in the People’s Republic of China and listed on the Shenzhen Stock Exchange (stock code: 21)
<b>“Kaifa Cancellation Consideration”</b>	the consideration to be received by Kaifa for the cancellation and extinguishment of its 171,121,237 Scheme Shares under the Scheme of Arrangement, which consists of (i) cash (at the Cancellation Price) as consideration for the cancellation and extinguishment of 60,000,000 Scheme Shares out of the 171,121,237 Scheme Shares held by Kaifa; and (ii) the crediting of the unpaid shares in the Offeror held by Kaifa as fully paid for the cancellation and extinguishment of 111,121,237 Scheme Shares out of the 171,121,237 Scheme Shares held by Kaifa
<b>“Latest Practicable Date”</b>	28 August 2020, being the latest practicable date prior to the printing of the Composite Scheme Document for ascertaining certain information contained herein
<b>“Mandarin Assets”</b>	Mandarin Assets Limited, a business company incorporated in BVI with limited liability and wholly owned by Mr Na, being an Offeror Concert Party
<b>“Mr Na”</b>	Mr. Na Qinglin, the chairman of the Company and an executive Director, and a director of each of the Offeror and Optical Alpha. Mr Na is an Offeror Concert Party
<b>“Mr Na Related Shareholders Cancellation Consideration”</b>	the consideration to be received by Mandarin Assets, O-Net BVI and O-Net SAPL for the cancellation and extinguishment of their in aggregate 287,710,833 Scheme Shares under the Scheme of Arrangement, which consists of the crediting of 287,710,833 unpaid shares in the Offeror held by Optical Alpha as fully paid and in turn, for Optical Alpha crediting of the unpaid shares in Optical Alpha held by Mandarin Assets, O-Net BVI and O-Net SAPL as fully paid

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## SCHEME OF ARRANGEMENT

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<b>“Offeror”</b>	Optical Beta Limited, a business company incorporated in BVI with limited liability and is owned as to 82.21% by Optical Alpha and 17.79% by Kaifa as at the Latest Practicable Date
<b>“Offeror Concert Parties”</b>	parties acting in concert or presumed to be acting in concert with the Offeror (including Mandarin Assets, O-Net BVI, O-Net SAPL, Kaifa, HC Capital, CICC (except in the capacity of an exempt principal trader or exempt fund manager for the purposes of the Takeovers Code and excluding Shares held by the CICC group on behalf of non-discretionary investment clients) and Guosen Securities (for the avoidance of doubt, all the Shares held by the Guosen Securities Group as at the Latest Practicable Date are not owned by it but are held for and on behalf of its non-discretionary clients))
<b>“O-Net BVI”</b>	O-Net Holdings (BVI) Limited, a business Company incorporated in BVI with limited liability which Mr. Na has control over 30% of its voting rights as at the Latest Practicable date, being an Offeror Concert Party
<b>“O-Net SAPL”</b>	O-Net Share Award Plan Limited, a business Company incorporated in BVI with limited liability and is wholly owned by O-Net BVI, being an Offeror Concert Party
<b>“Optical Alpha”</b>	Optical Alpha Limited, a business company incorporated in BVI with limited liability and is owned as to 3.16% by Mandarin Assets, 56.90% by O-Net BVI, 13.48% by O-Net SAPL and 26.46% by the Equity Investor as at the Latest Practicable Date
<b>“Proposal”</b>	the proposal for the privatisation of the Company by the Offeror by way of the Scheme of Arrangement
<b>“Register”</b>	the principal or branch register of members of the Company (as the case may be) in respect of the Shares
<b>“Scheme Conditions”</b>	the conditions to the implementation of the Scheme of Arrangement as set out in the section headed “3. <i>Conditions to the Proposal</i> ” in the Explanatory Statement of the Composite Scheme Document

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## SCHEME OF ARRANGEMENT

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<b>“Scheme Court Meeting Record Date”</b>	Friday, 25 September 2020, or such other date as may be announced to, among others, the Disinterested Shareholders, being the record date for the purpose of determining the entitlement of the Disinterested Shareholders to attend and vote at the Court Meeting
<b>“Scheme of Arrangement”</b>	a scheme of arrangement between the Company and the Scheme Shareholders under Section 86 of the Companies Law (subject to satisfaction (or waiver as applicable) of the Scheme Conditions) involving the cancellation and reduction of all the Scheme Shares and the restoration of the number of issued Shares in the share capital of the Company to the amount immediately before the cancellation and reduction of the Scheme Shares
<b>“Scheme Record Date”</b>	Thursday, 15 October 2020, the date on which the Scheme of Arrangement becomes effective, or such other date as shall have been announced to the Shareholders, being the record date for the purpose of determining the entitlement of the Shareholders to the Cancellation Price upon the Scheme of Arrangement becoming effective
<b>“Scheme Shareholder(s)”</b>	the holder(s) of Scheme Shares on the Scheme Record Date
<b>“Scheme Share(s)”</b>	Share(s) other than those directly or indirectly held by the Offeror as on the Scheme Record Date. As at the Latest Practicable Date, the Offeror does not legally and beneficially own, control or have direction over any Shares. Accordingly, all of the 834,028,240 Shares in issue as at the Latest Practicable Date will be subject to the Scheme of Arrangement and regarded as Scheme Shares
<b>“SFO”</b>	the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
<b>“Shareholder(s)”</b>	holder(s) of the Share(s)
<b>“Share(s)”</b>	ordinary share(s) of HK\$0.01 par value each in the share capital of the Company
<b>“Stock Exchange”</b>	The Stock Exchange of Hong Kong Limited
<b>“Takeovers Code”</b>	the Code on Takeovers and Mergers of Hong Kong

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## SCHEME OF ARRANGEMENT

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- (B) The Company was incorporated as an exempted company on 12 November 2009 with limited liability in the Cayman Islands under the Companies Law.
- (C) The Company has an authorised share capital of HK\$100,000,000 divided into 10,000,000,000 Shares of par value of HK\$0.01 each.
- (D) The Offeror has proposed the privatisation of the Company by way of the Scheme of Arrangement.
- (E) The primary purpose of the Scheme of Arrangement is to privatise the Company by cancelling and extinguishing all of the Scheme Shares in consideration for the Cancellation Price to be settled in the form of (i) cash for Scheme Shareholders (excluding Mandarin Assets, O-Net BVI, O-Net SAPL and Kaifa); (ii) Mr Na Related Shareholders Cancellation Consideration for Mandarin Assets, O-Net BVI and O-Net SAPL; or (iii) Kaifa Cancellation Consideration for Kaifa so that after the completion of the Scheme of Arrangement, the Offeror will own 100% of the Company. Simultaneously with the cancellation and extinguishment of the Scheme Shares, the issued share capital of the Company will be restored to its former amount by the issue to the Offeror credited as fully paid at par such number of Shares as is equal to the number of Scheme Shares cancelled and extinguished.

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## SCHEME OF ARRANGEMENT

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- (F) As at the Latest Practicable Date, an aggregate of 461,620,070 Shares were legally and/or beneficially owned by Mandarin Assets, O-Net BVI, O-Net SAPL, Kaifa and HC Capital (all being Offeror Concert Parties) and registered as follows:

Shareholders	As at the Latest Practicable Date		As at the Effective Date	
	Number of Shares	%	Number of Shares	%
<b>Offeror</b>	-	-	834,028,240	100.00
<b>Offeror Concert Parties</b>				
Mandarin Assets	5,232,000	0.63	-	-
O-Net BVI	228,373,383	27.38	-	-
O-Net SAPL	54,105,450	6.49	-	-
Kaifa	171,121,237	20.52	-	-
HC Capital	2,788,000	0.33	-	-
Aggregate number of Shares not voting on the Scheme of Arrangement	461,620,070	55.35	-	-
<b>Disinterested Shareholders</b> (aggregate number of Shares voting on the Scheme of Arrangement)	372,408,170	44.65	-	-
<b>Total Shares in issue</b>	834,028,240	100.00	834,028,240	100.00
<b>Total number of Scheme Shares</b> (which represent all issued Shares)	834,028,240	100.00	-	-

\* All percentages in the above table are approximation.

- (G) The Offeror and the Offeror Concert Parties will procure that any Shares in respect of which they are legally or beneficially interested will not be represented or voted at the Court Meeting convened at the direction of the Grand Court for the purpose of considering and, if thought fit, approving the Scheme of Arrangement. Only the Disinterested Shareholders will attend and vote at the Court Meeting.
- (H) Each of the Offeror and the Offeror Concert Parties that hold Shares (namely, Mandarin Assets, O-Net BVI, O-Net SAPL, Kaifa and HC Capital) has undertaken to the Grand Court to be bound by the terms of the Scheme of Arrangement and to execute and do and procure to be executed and done all such documents, acts and things as may be necessary or desirable for the purpose of giving effect to and satisfying its obligations under the Scheme of Arrangement.

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# SCHEME OF ARRANGEMENT

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## SCHEME OF ARRANGEMENT

### PART I

#### **Cancellation and extinguishment of the Scheme Shares and issue of new Shares credited as fully paid at par to the Offeror**

1. On the Effective Date:
  - (a) the issued share capital of the Company shall be reduced by cancelling and extinguishing the Scheme Shares and the Scheme Shareholders shall cease to have any right with respect to the Scheme Shares except the right to receive the Cancellation Price to be settled in the form of (i) cash for Scheme Shareholders (excluding Mandarin Assets, O-Net BVI, O-Net SAPL and Kaifa; (ii) Mr Na Related Shareholders Cancellation Consideration for Mandarin Assets, O-Net BVI and O-Net SAPL; or (iii) Kaifa Cancellation Consideration for Kaifa;
  - (b) subject to and forthwith upon such reduction of issued share capital taking effect, the issued share capital of the Company will be restored to its former amount by issuing to the Offeror the same number of Shares as is equal to the number of Scheme Shares cancelled and extinguished; and
  - (c) the Company shall apply the credit arising in its books of account as a result of the cancellation and extinguishment of the Scheme Shares by paying up in full at par such number of Shares as is equal to the number of Scheme Shares cancelled and extinguished, which shall be allotted and issued and credited as fully paid at par to the Offeror as mentioned in paragraph (b) above.

### PART II

#### **Consideration for the cancellation and extinguishment of the Scheme Shares**

2. In consideration of the cancellation and extinguishment of the Scheme Shares, the Offeror shall settle the Cancellation Price with each Scheme Shareholder (as appears in the Register on the Scheme Record Date) in the following manner;

**Scheme Shareholders** (other than Mandarin Assets, O-Net BVI, O-Net SAPL and Kaifa):

for each Scheme Share cancelled and extinguished . . . . . HK\$6.50 in cash

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## SCHEME OF ARRANGEMENT

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### **Mandarin Assets, O-Net BVI and O-Net SAPL:**

for 287,710,833 in aggregate Scheme Shares cancelled and extinguished . . . . .

crediting of 287,710,833 unpaid shares in the Offeror held by Optical Alpha as fully paid and in turn, for Optical Alpha crediting of the unpaid shares in Optical Alpha held by Mandarin Assets, O-Net BVI and O-Net SAPL as fully paid

### **Kaifa:**

for 171,121,237 Scheme Shares cancelled and extinguished . . . . .

- (i) cash (at the Cancellation Price) as consideration for the cancellation and extinguishment of 60,000,000 Scheme Shares out of the 171,121,237 Scheme Shares held by Kaifa, and
- (ii) crediting of the unpaid Shares in the Offeror held by Kaifa as fully paid for the cancellation and extinguishment of 111,121,237 Scheme Shares out of the 171,121,237 Scheme Shares held by Kaifa

## **PART III**

### **General**

- 3. (a) As soon as possible and in any event not later than five (5) Business Days after the Effective Date, on request, the Company shall issue share certificate(s) to the Offeror.
- (b) As soon as possible and in any event not later than seven (7) Business Days (as defined under the Takeovers Code) after the Effective Date, the Offeror shall send or cause to be sent to the Scheme Shareholders (who are entitled to be wholly or partly paid by cash) cheques representing the Cancellation Price.
- (c) Unless otherwise indicated in writing to the Hong Kong branch share registrar and transfer office of the Company, being Computershare Hong Kong Investor Services Limited, all cheques to be despatched to the Scheme Shareholders (who are entitled to be wholly or partly paid by cash) shall be sent by ordinary post to the Scheme Shareholders at their respective addresses as appearing in the Register on the Scheme Record Date.
- (d) Cheques shall be posted at the risk of the addressees and neither the Offeror nor the Company shall be responsible for any loss or delay in receipt.
- (e) Cheques shall be in favour of the person to whom, in accordance with the provisions of paragraph (b) of this Clause 3, the envelope containing the same is addressed and the encashment of any such cheques shall be a good discharge to the Offeror for the monies represented thereby.

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## SCHEME OF ARRANGEMENT

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- (f) On or after the day being six calendar months after the posting of the cheques pursuant to paragraph (b) of this Clause 3, the Offeror shall have the right to cancel or countermand payment of any such cheque which has not been encashed or has been returned uncashed and shall place all monies represented thereby in a deposit account in the Offeror's name with a licensed bank in Hong Kong selected by the Offeror. The Offeror shall hold such monies on trust for those entitled under the terms of the Scheme of Arrangement until the expiration of six years from the Effective Date and shall prior to such date pay out of such monies the sums payable pursuant to the Scheme of Arrangement to persons who satisfy the Offeror that they are entitled thereto and the cheques referred to in paragraph (b) of this Clause 3 of which they are payees have not been encashed. Any payments made by the Offeror shall not include any interest accrued on the sums to which the respective persons are entitled pursuant to the Scheme of Arrangement. The Offeror shall exercise its absolute discretion in determining whether or not it is satisfied that any person is so entitled and a certificate of the Offeror to the effect that any particular person is so entitled or not so entitled, as the case may be, shall be conclusive and binding upon all persons claiming an interest in the relevant monies.
  - (g) On the expiration of six years from the Effective Date, the Offeror and the Company shall be released from any further obligation to make any payments under the Scheme of Arrangement.
  - (h) Paragraph (g) of this Clause 3 shall take effect subject to any prohibition or condition imposed by law.
  - (i) Upon cancellation and extinguishment of the Scheme Shares, the Register shall be updated to reflect such cancellation and extinguishment.
4. As from the Effective Date, any instruments of transfer relating to and all certificates representing, the Scheme Shares shall cease to have effect as documents of title (and/or for any purpose as an instrument of transfer) and every Scheme Shareholder and every holder of such certificate shall be bound on the request of the Offeror to deliver up the same to the Offeror for cancellation thereof.
5. All mandates, representations, warranties, undertakings or relevant instructions to or by the Company in force on the Scheme Record Date relating to any of the Scheme Shares shall cease to be valid as effective mandates, representations, warranties, undertakings or instructions on the Effective Date.
6. The Scheme of Arrangement shall become effective as soon as a copy of the order of the Grand Court sanctioning the Scheme of Arrangement has been delivered to the Registrar of Companies in the Cayman Islands for registration pursuant to section 86(3) of the Companies Law.

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## SCHEME OF ARRANGEMENT

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7. Unless the Scheme of Arrangement shall have become effective on or before 28 February 2021 or such later date as the Offeror and the Company may agree, or to the extent applicable, as the Grand Court on application of the Company may allow and in all cases, as permitted by the Executive, the Scheme of Arrangement shall lapse and be of no effect.
8. The Company and the Offeror may, subject to the approval of the Grand Court, jointly consent to any modification of or addition to the Scheme of Arrangement or to any condition contained therein.
9. The Offeror and the Company have agreed that all costs, charges and expenses of the advisers and counsels appointed by the Company, including the Independent Financial Adviser, will be borne by the Company whereas all costs, charges and expenses of the advisers and counsels appointed by Offeror will be borne by the Offeror, and other costs, charges and expenses of the Scheme of Arrangement incurred by each of the Offeror and the Company will be borne by them respectively.

2 September 2020

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## NOTICE OF COURT MEETING

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IN THE GRAND COURT OF THE CAYMAN ISLANDS  
FINANCIAL SERVICES DIVISION

Cause No. FSD 173 of 2020 (NSJ)

IN THE MATTER OF SECTIONS 15 AND 86 OF THE COMPANIES LAW (2020 REVISION)  
(AS AMENDED)  
AND IN THE MATTER OF THE GRAND COURT RULES 1995 ORDER 102  
AND IN THE MATTER OF O-NET TECHNOLOGIES (GROUP) LIMITED 昂納科技(集團)  
有限公司

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### NOTICE OF COURT MEETING

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**NOTICE IS HEREBY GIVEN** that, by an order (the “**Order**”) made in the above matter, the Grand Court of the Cayman Islands (the “**Court**”) has directed a meeting (the “**Court Meeting**”) to be convened of the Disinterested Shareholders (as defined in the Scheme of Arrangement hereinafter mentioned) for the purpose of considering and, if thought fit, approving (voting together as a single class), a scheme of arrangement (the “**Scheme of Arrangement**”) proposed to be made between O-Net Technologies (Group) Limited 昂納科技(集團)有限公司 (the “**Company**”) and the Scheme Shareholders (as defined in the Scheme of Arrangement) and that the Court Meeting will be held at 24/F., Admiralty Centre I, 18 Harcourt Road, Admiralty, Hong Kong on Friday, 25 September 2020 at 10:00 a.m. (Hong Kong time) at which place and time all Disinterested Shareholders are invited to attend.

A copy of the Scheme of Arrangement and a copy of an explanatory statement explaining the effect of the Scheme of Arrangement are incorporated in the composite scheme document of which this Notice forms part. A copy of the composite scheme document can also be obtained by the Disinterested Shareholders from the Hong Kong branch share registrar and transfer office of the Company, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong.

Disinterested Shareholders may vote in person at the Court Meeting or they may appoint another person (who must be an individual), whether a member of the Company or not, to attend, speak and vote in their stead. A **pink** form of proxy for use at the Court Meeting (or any adjournment thereof) is enclosed with the composite scheme document dated 2 September 2020 despatched to, among others, the Disinterested Shareholders on 2 September 2020. Completion and return of the **pink** form of proxy will not prevent a Disinterested Shareholder from attending and voting at the Court Meeting, or any adjournment thereof, in person if he/she wishes to do so and in such event, the **pink** form of proxy previously submitted shall be deemed to have been revoked by operation of law.

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## NOTICE OF COURT MEETING

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In the case of Disinterested Shareholders jointly holding ordinary shares of HK\$0.01 par value each in the share capital of the Company (the “**Shares**”), any one of such persons may vote at the Court Meeting, either personally or by proxy, in respect of such Share as if he/she was solely entitled thereto. However, if more than one of such joint holders be present at the Court Meeting personally or by proxy, that one of the said persons so present being the most or, as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding. For this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand on the Register of Members of the Company in respect of such joint holding of Shares, the first named Disinterested Shareholder being the senior.

It is requested that **pink** forms appointing proxies be deposited at the Hong Kong branch share registrar and transfer office of the Company in Hong Kong at Computershare Hong Kong Investor Services Limited, at 17M/F, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong not later than 10:00 a.m. on Wednesday, 23 September 2020, but if forms are not so lodged they may be handed to the chairman of the Court Meeting at the Court Meeting before the taking of the poll and the chairman of the Court Meeting should have absolute discretion whether or not to accept them.

By the Order, the Court has appointed Mr. Ong Chor Wei, a director of the Company, or failing whom, Mr. Zhao Wei, also a director of the Company, or failing whom, any other person who is a director of the Company as at the date of the Court Meeting, to act as the chairman of the Court Meeting and has directed the chairman of the Court Meeting to report the results of the Court Meeting to the Court.

The Scheme of Arrangement will be subject to a subsequent application seeking the sanction of the Court.

On behalf of the Court  
**O-Net Technologies (Group) Limited**  
昂納科技(集團)有限公司  
**Na Qinglin**  
*Chairman and Chief Executive Officer*

Hong Kong, 2 September 2020

*Registered Office:*  
Cricket Square  
Hutchins Drive  
P.O. Box 2681  
Grand Cayman KY1-1111  
Cayman Islands

*Principal Place of  
Business in Hong Kong:*  
Unit 1608, West Tower  
Shun Tak Centre  
168-200 Connaught Road Central  
Hong Kong

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## NOTICE OF COURT MEETING

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*Notes:*

- (1) Unless otherwise defined in this notice or the context otherwise requires, terms defined in the composite document containing the Scheme of Arrangement dated 2 September 2020 despatched to, among others, the Disinterested Shareholders (the “**Scheme Document**”) shall have the same meanings when used in this notice.
- (2) A Disinterested Shareholder entitled to attend and vote at the Court Meeting is entitled to appoint one, and if such Disinterested Shareholder is the holder of two or more Shares, more than one proxy (who must be an individual) to attend and vote instead of him. A proxy need not be a member of the Company, but must attend the Court Meeting in person to represent him.
- (3) A **pink** form of proxy for use at the Court Meeting (or any adjournment thereof) is enclosed with the Scheme Document.
- (4) In order to be valid, the **pink** form of proxy, together with the power of attorney or other authority (if any) under which it is signed or a certified copy thereof, must be lodged with Computershare Hong Kong Investor Services Limited, the Company’s Hong Kong branch share registrar and transfer office at 17M/F, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, not less than 48 hours before the time for holding the Court Meeting or any adjournment thereof but if forms are not so lodged they may be handed to the chairman of the Court Meeting at the Court Meeting before the taking of the poll and the chairman of the Court Meeting should have absolute discretion whether or not to accept them. Completion and return of the **pink** form of proxy will not preclude a Disinterested Shareholder from attending the Court Meeting and voting in person if he so wishes. In the event that a Disinterested Shareholder attends and votes at the Court Meeting after having lodged his **pink** form of proxy, his **pink** form of proxy shall be deemed to have been revoked by operation of law.
- (5) In the case of joint Disinterested Shareholders, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the vote(s) of the other joint holder(s) and, for this purpose, seniority will be determined by the order in which the names stand in the Register of Members of the Company in respect of the relevant joint holding of the Shares.
- (6) Voting at the Court Meeting will be taken by poll as required under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Hong Kong Code on Takeovers and Mergers.
- (7) The Register of Members of the Company in respect of the Shares will be closed from Tuesday, 22 September 2020 to Friday, 25 September 2020 (both days inclusive) and during such period no transfer of Shares will be registered. In order to be entitled to attend and vote at the Court Meeting, all transfers accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrar and transfer office of the Company, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Monday, 21 September 2020.
- (8) Taking into account the recent development of the epidemic caused by the coronavirus disease (COVID-19), the Company will implement the following prevention and control measures at the Court Meeting to protect Disinterested Shareholders from the risk of infection:
  - (i) compulsory body temperature checks will be conducted for every attending Disinterested Shareholder or proxy at the entrance of the venue. Any person with a body temperature of over 37.3 degrees Celsius will not be admitted to the venue, but will be able to vote by submitting a voting slip to the scrutineer at the entrance of the venue;
  - (ii) every attending Disinterested Shareholder or proxy is required to wear a surgical mask throughout the Court Meeting; and

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## NOTICE OF COURT MEETING

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(iii) no refreshments will be served at the Court Meeting.

Furthermore, the Company wishes to advise all of the Disinterested Shareholders, particularly any Disinterested Shareholders who are subject to quarantine in relation to COVID-19, that they may appoint any person or the chairman of the Court Meeting as a proxy to attend and vote on any of the resolutions, instead of attending the Court Meeting in person. Physical attendance by Disinterested Shareholders is not necessary for the purpose of exercising their voting rights. The Company will closely monitor and ascertain the regulations and measures introduced or to be introduced by the Hong Kong government, and if necessary, will make further announcements in case of any update regarding the precautionary measures to be carried out at the Court Meeting.

(9) In the case of any inconsistency between the Chinese translation and English text of this notice, the English text shall prevail.

*As at the date of this notice, the executive director of the Company is Mr. Na Qinglin, the non-executive directors of the Company are Mr. Chen Zhujiang, Mr. Huang Bin and Mr. Mo Shangyun, and the independent non-executive directors of the Company are Mr. Deng Xinping, Mr. Ong Chor Wei and Mr. Zhao Wei.*

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## NOTICE OF EGM

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### O-NET TECHNOLOGIES (GROUP) LIMITED

昂納科技（集團）有限公司

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

**(Stock Code: 877)**

### NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “EGM”) of holders of ordinary shares of HK\$0.01 par value each (the “Shares”) in the share capital of O-Net Technologies (Group) Limited 昂納科技（集團）有限公司 (the “Company”) will be held at 24/F., Admiralty Centre I, 18 Harcourt Road, Admiralty, Hong Kong on Friday, 25 September 2020, at 10:30 a.m. (Hong Kong time) (or as soon as practicable after the meeting of the Disinterested Shareholders (as defined in the Scheme of Arrangement hereinafter mentioned) convened at the direction of the Grand Court of the Cayman Islands for the same day and place shall have concluded or been adjourned), for the purpose of considering and, if thought fit, passing the following resolutions:

#### SPECIAL RESOLUTION

1. “THAT:

- (a) pursuant to a scheme of arrangement dated 2 September 2020 (the “Scheme of Arrangement”) between the Company and the Scheme Shareholders (as defined in the Scheme of Arrangement) in the form of the print thereof, which has been produced to this meeting and for the purposes of identification signed by the chairman of this meeting, or in such other form and on such terms and conditions as may be approved or imposed by the Grand Court of the Cayman Islands, on the Effective Date (as defined in the Scheme of Arrangement), the issued shares in the share capital of the Company shall be reduced by the cancellation and extinguishment of the Scheme Shares (as defined in the Scheme of Arrangement); and
- (b) any one of the directors of the Company be and is hereby authorised to do all acts and things considered by him to be necessary or desirable in connection with the implementation of the Scheme of Arrangement and the reduction of the number of issued shares in the share capital of the Company pursuant to the Scheme of Arrangement, including (without limitation) giving consent to any modification of, or addition to, the Scheme of Arrangement or the reduction of the number of issued shares in the share capital of the Company which the Grand Court of the Cayman Islands may see fit to impose.”

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## NOTICE OF EGM

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### ORDINARY RESOLUTION

2. “THAT:
- (a) subject to and simultaneously with the cancellation and extinguishment of the Scheme Shares referred to in resolution 1(a) taking effect, the number of issued shares in the share capital of the Company be restored to its former amount by allotting and issuing to the Offeror (as defined in the Scheme of Arrangement), credited as fully paid at par, the same number of ordinary shares of HK\$0.01 each in the share capital of the Company as is equal to the number of Scheme Shares cancelled;
  - (b) the credit arising in the books of account of the Company consequent upon the reduction of its issued share capital resulting from the cancellation and extinguishment of the Scheme Shares referred to in resolution 1(a) shall be applied by the Company in paying up in full at par the new ordinary shares allotted and issued to the Offeror pursuant to resolution 2(a) above, and any one of the directors of the Company be and is hereby authorised to allot and issue the same accordingly; and
  - (c) any one of the directors of the Company be and is hereby authorised to do all acts and things considered by him to be necessary or desirable in connection with the implementation of the Scheme of Arrangement and the restoration of capital pursuant to the Scheme of Arrangement, including (without limitation) the giving of consent to any modification of, or addition to, the Scheme of Arrangement or the restoration of capital, which the Grand Court of the Cayman Islands may see fit to impose.”

On behalf of the board of directors of  
**O-NET TECHNOLOGIES (GROUP) LIMITED**  
昂納科技(集團)有限公司

**Na Qinglin**

*Chairman and Chief Executive Officer*

Hong Kong, 2 September 2020

*Registered office:*  
Cricket Square, Hutchins Drive  
P.O. Box 2681  
Grand Cayman KY1-1111  
Cayman Islands

*Principal Place of  
Business in Hong Kong:*  
Unit 1608, West Tower  
Shun Tak Centre  
168-200 Connaught Road Central  
Hong Kong

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## NOTICE OF EGM

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*Notes:*

- (1) Unless otherwise defined in this notice or the context otherwise requires, terms defined in the composite document (the “**Scheme Document**”) containing the Scheme of Arrangement dated 2 September 2020 despatched to holders of Shares (“**Shareholders**”) shall have the same meanings when used in this notice.
- (2) A member entitled to attend and vote at the EGM is entitled to appoint one, and if such member is the holder of two or more Shares, more than one proxy to attend and vote instead of him. A proxy need not be a member of the Company.
- (3) A **white** form of proxy for use at the EGM (or any adjournment thereof) is enclosed with the Scheme Document.
- (4) In order to be valid, the **white** form of proxy, together with the power of attorney or other authority (if any) under which it is signed or a certified copy thereof, must be lodged with Computershare Hong Kong Investor Services Limited, the Company’s Hong Kong branch share registrar and transfer office at 17M/F, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, not less than 48 hours before the time for holding the EGM or any adjournment thereof failing which the **white** form of proxy will not be valid. Completion and return of the **white** form of proxy will not preclude a Shareholder from attending the EGM and voting in person if he so wishes. In the event that a Shareholder attends and votes at the EGM after having lodged his **white** form of proxy, his **white** form of proxy will be deemed to have been revoked by operation of law.
- (5) In the case of joint holders of Shares, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the vote(s) of the other joint holder(s) and, for this purpose, seniority will be determined by the order in which the names stand in the Register of Members of the Company in respect of the relevant joint holding.
- (6) Voting at the EGM will be taken by poll as required under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Hong Kong Code on Takeovers and Mergers.
- (7) The Register of Members of the Company in respect of the Shares will be closed from Tuesday, 22 September 2020 to Friday, 25 September 2020 (both days inclusive) and during such period no transfer of Shares will be registered. In order to be entitled to attend and vote at the EGM, all transfers accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrar and transfer office of the Company, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Monday, 21 September, 2020.
- (8) Taking into account the recent development of the epidemic caused by the coronavirus disease (COVID-19), the Company will implement the following prevention and control measures at the EGM to protect Shareholders from the risk of infection:
  - (i) compulsory body temperature checks will be conducted for every attending Shareholder or proxy at the entrance of the venue. Any person with a body temperature of over 37.3 degrees Celsius will not be admitted to the venue, but will be able to vote by submitting a voting slip to the scrutineer at the entrance of the venue;
  - (ii) every attending Shareholder or proxy is required to wear a surgical mask throughout the EGM; and
  - (iii) no refreshments will be served at the EGM.

Furthermore, the Company wishes to advise all of the Shareholders, particularly any Shareholders who are subject to quarantine in relation to COVID-19, that they may appoint any person or the chairman of the EGM as a proxy to attend and vote on any of the resolutions, instead of attending the EGM in person. Physical attendance by Shareholders is not necessary for the purpose of exercising their voting rights. The Company will closely monitor and ascertain the regulations and measures introduced or to be introduced by the Hong Kong government, and if necessary, will make further announcements in case of any update regarding the precautionary measures to be carried out at the EGM.

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## NOTICE OF EGM

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- (9) In the case of any inconsistency between the Chinese translation and English text of this notice, the English text shall prevail.

*As at the date of this notice, the executive director of the Company is Mr. Na Qinglin, the non-executive directors of the Company are Mr. Chen Zhujiang, Mr. Huang Bin and Mr. Mo Shangyun, and the independent non-executive directors of the Company are Mr. Deng Xinping, Mr. Ong Chor Wei and Mr. Zhao Wei.*