

THIS COMPOSITE DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of the Offers, 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 Beijing Digital Telecom Co., Ltd., you should at once hand this Composite Document and the accompanying Forms of Acceptance to the purchaser(s) or transferee(s), 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(s) or transferee(s).

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this Composite Document and the accompanying Forms of Acceptance, make no representation as to its 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 Composite Document and the Forms of Acceptance.


迪信通
北京迪信通商貿股份有限公司
**BEIJING DIGITAL
TELECOM CO., LTD.**
(a joint stock limited company
incorporated in the People's Republic of
China with limited liability)
(Stock Code: 6188)


华实控股
Huafa Industrial Investment
華發集團旗下企業
珠海華發實業產業投資控股
有限公司
**ZHUHAI HUAFA
INDUSTRIAL
INVESTMENT HOLDING
CO., LTD.***
(a limited liability company established in
the People's Republic of China)


香港華發
HK Huafa Investment
華發集團旗下企業
香港華發投資控股有限公司
**HONG KONG HUAFA
INVESTMENT HOLDINGS
LIMITED**
(a limited liability company incorporated
in Hong Kong)

COMPOSITE DOCUMENT IN RELATION TO

- (1) **THE MANDATORY CONDITIONAL CASH OFFER BY ZHUHAI HUAFA INDUSTRIAL INVESTMENT HOLDING CO., LTD.* FOR ALL THE ISSUED DOMESTIC SHARES OF BEIJING DIGITAL TELECOM CO., LTD. (OTHER THAN THOSE ALREADY OWNED OR AGREED TO BE ACQUIRED BY ZHUHAI HUAFA INDUSTRIAL INVESTMENT HOLDING CO., LTD.* AND PARTIES ACTING IN CONCERT WITH IT); AND**
- (2) **THE MANDATORY CONDITIONAL CASH OFFER BY GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED ON BEHALF OF HONG KONG HUAFA INVESTMENT HOLDINGS LIMITED TO ACQUIRE ALL THE ISSUED H SHARES OF BEIJING DIGITAL TELECOM CO., LTD.**

**Financial Adviser to Zhuhai Huafa Industrial Investment Holding Co., Ltd* and
Hong Kong Huafa Investment Holdings Limited**


國泰君安國際
GUOTAI JUNAN INTERNATIONAL
Guotai Junan Capital Limited

Independent Financial Adviser to the Independent Board Committee


**Innovax
Capital**
Innovax Capital Limited

Capitalised terms used in this cover page shall have the same meanings as those defined in the section headed "Definitions" in this Composite Document.

The "Letter from Guotai Junan Capital" containing, among other things, the details of the terms of the H Share Offer is set out on pages 13 to 25 of this Composite Document. The "Letter from Zhuhai Huafa Industrial" containing, among other things, the details of the terms of the Domestic Share Offer is set out on pages 26 to 28 of this Composite Document. The "Letter from the Board" is set out on pages 29 to 41 of this Composite Document. The "Letter from the Independent Board Committee" containing its advice on the Offers to the Independent Shareholders is set out on pages 42 to 43 of this Composite Document. The "Letter from Innovax" containing its opinion on the Offers and its recommendation to the Independent Board Committee and the Independent Shareholders is set out on pages 44 to 72 of this Composite Document.

The procedures for acceptance and settlement of the Offers and other related information are set out in Appendix I to this Composite Document and in the accompanying Forms of Acceptance. Acceptances of the H Share Offer should be delivered to and received by the H Share Registrar by no later than 4:00 p.m. on Friday, 21 May 2021 or such later time(s) and/or date(s) as Hong Kong Huafa may determine and announce in accordance with the requirements under the Takeovers Code. Documents required to accept the Domestic Share Offer as set out in Appendix I to this Composite Document should be delivered to and received by Zhuhai Huafa Industrial and notarised at the designated location set out in the GREEN Form of Acceptance by no later than 4:00 p.m. on Friday, 21 May 2021 or such later time(s) and/or date(s) as Zhuhai Huafa Industrial may determine and announce in accordance with the requirements under the Takeovers Code. Zhuhai Huafa Industrial will be entitled to reject any acceptance in relation to the Domestic Share Offer which does not comply with the provisions and instructions contained in this Composite Document and in the GREEN Form of Acceptance, or which is otherwise incomplete, incorrect or invalid in any respect. If you wish to accept the Domestic Share Offer, it is your responsibility to ensure that the GREEN Form of Acceptance is properly completed in all respects and all required documents are provided. A decision by Zhuhai Huafa Industrial to reject any acceptance on the grounds that it has been invalidly, incorrectly or incompletely signed, completed or submitted will be final and binding and Zhuhai Huafa Industrial shall not accept any responsibility or liability for the consequences of such a decision.

Persons including, without limitation, custodians, nominees and trustees, who would, or otherwise intend to, forward this Composite Document and/or the accompanying Forms of Acceptance to any jurisdiction outside Hong Kong should read the details in this regard which are contained in the "Important Notice", the section headed "Overseas Independent Shareholders" of the "Letter from Guotai Junan Securities", and the "Letter from Zhuhai Huafa Industrial" of this Composite Document before taking any action. It is the responsibility of each Overseas Independent Shareholder wishing to accept the Offers to satisfy himself, herself or itself as to the full observance of the laws of the relevant jurisdiction in connection therewith, including the obtaining of any governmental, exchange control or other consents which may be required and the compliance with other necessary formalities, regulatory and/or legal requirements. Each Overseas Independent Shareholder is advised to seek professional advice on deciding whether or not to accept the Offers.

* For identification purposes only

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EXPECTED TIMETABLE

The expected timetable set out below is indicative only and may be subject to changes. Announcement(s) will be made in the event of any changes to the timetable as and when appropriate. Unless otherwise specified, all the time and date references contained in this Composite Document refer to Hong Kong local time and dates.

Commencement date of the Offers (Note 1) Friday, 30 April 2021

Offers open for acceptance Friday, 30 April 2021

Latest time and date for acceptance of the

Offers on the first Closing Date (Note 2) by 4:00 p.m. on Friday, 21 May 2021

First Closing Date of the Offers (Note 2) Friday, 21 May 2021

Announcement of the results of the Offers as at

the first Closing Date or as to whether the Offers

have been revised or extended on the website

of the Stock Exchange (Note 2) by 7:00 p.m. on Friday, 21 May 2021

Latest date for posting of remittance for the

amounts due under the Offers in respect of valid

acceptances received on or before the latest time

and date for acceptance of the Offers on the

first Closing Date assuming the Offers becomes or

are declared unconditional on the first

Closing Date (Notes 3 and 4) Tuesday, 1 June 2021

Latest time and date for the Offers remaining

open for acceptance on the final Closing Date

assuming the Offers become or are declared

unconditional on the first Closing Date (Note 5) by 4:00 p.m. Friday, 4 June 2021

Final Closing Date of the Offers (assuming the Offers

become or are declared unconditional on

the first Closing Date) (Note 5) Friday, 4 June 2021

Announcement of the results of the Offers as at

the final Closing Date to be posted on the

website of the Stock Exchange by 7:00 p.m. on Friday, 4 June 2021

EXPECTED TIMETABLE

Latest date of posting remittances for the amount due under the Offers in respect of valid acceptances received on the latest time for acceptance of the Offers on the final Closing Date assuming the Offers become or are declared unconditional on the first Closing Date (*Notes 3 and 4*) Wednesday, 16 June 2021

Latest time and date by which the Offers can become or be declared unconditional as to acceptance (*Note 6*) by 7:00 p.m. on Tuesday, 29 June 2021

Notes:

1. The Offers, which are conditional as to acceptances, are made on the posting of this Composite Document.
2. The latest time for acceptance of the Offers on the first Closing Date is 4:00 p.m. on Friday, 21 May 2021, being 21 days after the date of posting of this Composite Document, unless the Offeror Group extend the Offers in accordance with the Takeovers Code. The Offeror Group and the Company will jointly issue an announcement through the website of the Stock Exchange no later than 7:00 p.m. on Friday, 21 May 2021 as to whether the Offers have been revised, extended or expired or has become or been declared unconditional and, in relation to any revision or extension of the Offers, to state either the next closing date or that the Offers will remain open until further notice. If the Offers do not become unconditional on or before Friday, 21 May 2021, the Offers will lapse unless the Offers are extended in accordance with the Takeovers Code. In the event that the Offeror Group decides to extend the Offers and the joint announcement regarding the same does not specify the next closing date, at least 14 days' notice by way of an announcement jointly issued by the Offeror Group and the Company will be given before the Offers are closed to those Independent Shareholders who have not accepted the Offers.
3. Subject to the Offers becoming unconditional, remittances in respect of the cash consideration (after deducting the seller's ad valorem stamp duty in respect of acceptances of the H Share Offer) payable under Offers will be posted to the accepting Independent Shareholders by ordinary post at their own risk as soon as possible, but in any event within seven Business Days following the later of (i) the date on which the Offers become, or is declared, unconditional, and (ii) the date of receipt of a duly completed acceptance. Zhuhai Huafa Industrial will be entitled to reject any acceptance in relation to the Domestic Share Offer which does not comply with the provisions and instructions contained in this Composite Document and in the GREEN Form of Acceptance, or which is otherwise incomplete, incorrect or invalid in any respect. If you wish to accept the Domestic Share Offer, it is your responsibility to ensure that the GREEN Form of Acceptance is properly completed in all respects and all required documents are provided. A decision by Zhuhai Huafa Industrial to reject any acceptance on the grounds that it has been invalidly, incorrectly or incompletely signed, completed or submitted will be final and binding and Zhuhai Huafa Industrial shall not accept any responsibility or liability for the consequences of such a decision.

An acceptor shall be entitled to withdraw his acceptance after 21 days from the first Closing Date, if the Offers have not by then become unconditional as to acceptances. Please refer to the paragraph headed "5. Right of Withdrawal" of Appendix I to this Composite Document. This entitlement to withdraw shall be exercisable until such time as the Offers become or are declared unconditional as to acceptances.

4. If there is a tropical cyclone warning signal number 8 or above, or a black rainstorm warning:
 - (a) in force in Hong Kong at any local time before 12:00 noon but no longer in force after 12:00 noon on the latest date for acceptance of the Offers and the latest date for posting of remittances of the amounts due under the Offers in respect of valid acceptances, the latest time for acceptance of the Offers and the posting of remittances will remain at 4:00 p.m. on the same Business Day; or
 - (b) in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on the latest date for acceptance of the Offers and the latest date for posting of remittances for the amounts due under

EXPECTED TIMETABLE

the Offers in respect of valid acceptances, the latest time and date for acceptance of the Offers and the posting of remittances will be rescheduled to 4:00 p.m. on the next succeeding Business Day on which there is not either of those warnings in force at any time between 9:00 a.m. and 4:00 p.m..

5. In accordance with the Takeovers Code, where the Offers become or are declared unconditional, the Offers should remain open for acceptance for not less than 14 days thereafter. When the Offers become or are declared unconditional in all respects, at least 14 days' notice in writing must be given before the Offers are closed to those Independent Shareholders who have not accepted the Offers. The Offeror Group has the right, subject to the Takeovers Code, to extend the Offers until such date as the Offeror Group may determine or as permitted by the Executive, in accordance with the Takeovers Code. The Offeror Group and the Company will jointly issue an announcement in relation to any extension of the Offers, which will state the next Closing Date or, if the Offers have become or are at that time unconditional, that the Offers will remain open until further notice. In the latter case, at least 14 days' notice will be given before the Offers are closed, to those Independent Shareholders who have not accepted the Offers and an announcement will be published.
6. In accordance with the Takeovers Code, except with the consent of the Executive, the Offers (whether revised or not) may not become or be declared unconditional as to acceptances after 7:00 p.m. on Tuesday, 29 June 2021, being the 60th day after the day this Composite Document is posted. Accordingly, unless the Offers have previously become unconditional as to acceptances, the Offers will lapse on Tuesday, 29 June 2021 unless extended with the consent of the Executive and in accordance with the Takeovers Code.

Save as mentioned above, if the latest time for the acceptance of the Offers does not take effect on the date and time as stated above, the other dates mentioned above may be affected. The Offeror Group and the Company will jointly notify the Shareholders by way of announcement(s) on any change to the expected timetable as soon as practicable.

IMPORTANT NOTICE

NOTICE TO THE OVERSEAS INDEPENDENT SHAREHOLDERS

The Offers made to the Overseas Independent Shareholders and/or Independent Shareholders who are citizens or residents or nationals of jurisdictions outside Hong Kong may be subject to the laws of the relevant overseas jurisdictions. Such persons should inform themselves about and observe any applicable legal and regulatory requirements of their own jurisdictions and, where necessary, seek independent legal advice in respect of the Offers. It is the responsibility of any such persons wishing to accept the Offers to satisfy themselves as to the full observance of the laws of the relevant jurisdictions in connection therewith, including the obtaining of any governmental or exchange control or other consents which may be required, or the compliance with other necessary formalities and the payment of any issue, transfer or other taxes due in such jurisdictions.

The Offeror Group and parties acting in concert with it, and their respective ultimate beneficial owners, directors, officers, agents, advisers and associates and any other person involved in the Offers shall be entitled to be fully indemnified and held harmless by such persons for any taxes or duties as such persons may be required to pay. Please refer to the section headed “Overseas Independent Shareholders” of the “Letter from Guotai Junan Capital” and “Letter from Zhuhai Huafa Industrial” in this Composite Document for further information.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Composite Document contains forward-looking statements, which may be identified by words such as “believe”, “expect”, “anticipate”, “intend”, “plan”, “seek”, “estimate”, “will”, “would” or words of similar meaning, that involve risks and uncertainties, as well as assumptions. All statements other than statements of historical fact are statements that could be deemed forward-looking statements. The Offeror Group and the Company assume no obligation and do not intend to update these forward-looking statements, except as required pursuant to applicable laws or regulations, including but not limited to the Takeovers Code.

DEFINITIONS

In this Composite Document, the following terms and expressions (unless the context otherwise requires) shall have the following meanings.

“acting in concert”	has the same meaning as ascribed to it under the Takeovers Code
“associate(s)”	has the same meaning as ascribed to it under the Takeovers Code
“Board”	the board of Directors
“Business Day(s)”	a day on which the Stock Exchange is open for the transaction of business
“Closing Date”	21 May 2021, which is 21 days after the date on which this Composite Document is posted, or if the Offers is extended, any subsequent closing date of the Offers as extended and jointly announced by the Offeror Group and the Company with the consent of the Executive in accordance with the Takeovers Code
“Company”	Beijing Digital Telecom Co., Ltd. (北京迪信通商貿股份有限公司), a joint stock limited company incorporated in the PRC with limited liability, the H Shares of which are listed on the Main Board of the Stock Exchange (stock code: 6188)
“Completion”	completion of the sale and purchase of the Sale Shares
“Completion Announcement”	the joint announcement issued by the Company, Zhuhai Huafa Industrial and Hong Kong Huafa dated 7 April 2021 in relation to, among other things, the Completion
“Composite Document”	this composite offer and response document jointly despatched by Zhuhai Huafa Industrial, Hong Kong Huafa and the Company to the Shareholders in accordance with the Takeovers Code in respect of the Offers
“Concert Party Agreement”	the concert party agreement dated 29 January 2021 entered into between the Transferors, Zhuhai Huafa Industrial and the Liu Family, the major terms of which are set out in the section headed “the Concert Party Agreement” of the “Letter from the Board” in this Composite Document

DEFINITIONS

“CSDC”	China Securities Depository and Clearing Corporation Limited (中國證券登記結算有限公司)
“Di Er Tong”	Beijing Di Er Tong Consulting Company Limited (北京迪爾通諮詢有限公司), a joint stock limited company established in the PRC
“Digital Science & Technology”	Digital Science & Technology Group Limited (迪信通科技集團有限公司), a joint stock limited company established in the PRC
“Director(s)”	director(s) of the Company
“Disposal”	has the meaning given to it in the section headed “the Concert Party Agreement – Subject matter” of the “Letter from the Board” in this Composite Document
“Domestic Share(s)”	ordinary share(s) in the capital of the Company, with a nominal value of RMB1, which are subscribed for and paid up in RMB
“Domestic Share Offer”	the conditional mandatory cash offer made by Zhuhai Huafa Industrial for the Domestic Shares (other than those already owned or agreed to be acquired by Zhuhai Huafa Industrial and parties acting in concert with it) in accordance with the Takeovers Code
“Domestic Share Offer Price”	the price at which the Domestic Share Offer is made, being RMB3.2030 per Domestic Share
“Encumbrance”	any mortgage, charge, pledge, lien (otherwise than arising by statute or operation of law), hypothecation or other encumbrance, priority or security interest or other third party right, deferred purchase, title retention, leasing, sale-and-repurchase or sale-and-leaseback or trust arrangement whatsoever over or in any property, assets or rights of whatsoever nature and includes any agreement for any of the same
“Entrusted Shares”	the 168,362,098 Domestic Shares held by the Transferors following Completion entrusted to Zhuhai Huafa Industrial in accordance with the Concert Party Agreement (representing approximately 22.99% of the total number of issued Shares as at the Latest Practicable Date)

DEFINITIONS

“Escrow Account”	has the meaning given to it in the section headed “the Share Purchase Agreement – Consideration of the Sale Shares” of the “Letter from the Board” in this Composite Document
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
“Existing Share Pledges”	(1) the pledge of 67,062,098 Domestic Shares by Digital Science & Technology in favour of Bank of Tangshan Co., Ltd as disclosed in the announcement of the Company dated 31 December 2020; and (2) the pledge of 63,270,000 Domestic Shares by Digital Science & Technology to Beijing Jingdixin Technology Company Limited* (北京京迪信科技有限公司) as disclosed in the announcement of the Company dated 28 January 2021
“Group”	the Company and its subsidiaries
“Guotai Junan Capital”	Guotai Junan Capital Limited, a corporation licensed under the SFO permitted to engage in type 6 regulated activity (as defined under the SFO), and the financial adviser to the Offeror Group in respect of the Offers
“Guotai Junan Securities”	Guotai Junan Securities (Hong Kong) Limited, a corporation licensed under the SFO permitted to engage in type 1, 2 and 4 regulated activities (as defined under the SFO) and a fellow subsidiary of Guotai Junan Capital
“H Share(s)”	overseas listed foreign share(s) in the ordinary share capital of the Company with a nominal value of RMB1, which are subscribed for and traded in Hong Kong dollars and listed on the Stock Exchange
“H Share Offer”	the conditional mandatory cash offer made by Guotai Junan Securities for and on behalf of Hong Kong Huafa for the H Shares in accordance with the Takeovers Code
“H Share Offer Price”	the price at which the H Share Offer is made, being HK\$3.8429 per H Share

DEFINITIONS

“H Share Registrar”	Computershare Hong Kong Investor Services Limited, being the registrar and transfer office of the Company, whose address is at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Huafa”	Hong Kong Huafa Investment Holdings Limited (香港華發投資控股有限公司), a company incorporated in Hong Kong with limited liability, details of which are set out in the section headed “Information on the Offeror Group and its Concert Group” of the “Letter from Guotai Junan Capital” in this Composite Document
“Independent Board Committee”	the independent board committee of the Board, comprising all of the non-executive Directors and independent non-executive Directors, formed to advise the Independent Shareholders in respect of the Offers
“Independent Financial Adviser” or “Innovax”	Innovax Capital Limited, being the independent financial adviser to the Independent Board Committee in relation to the Offers, a corporation licensed under the SFO permitted to engage in type 1 and type 6 regulated activities (as defined under the SFO)
“Independent Shareholders”	Shareholders other than (i) Zhuhai Huafa Industrial, (ii) Hong Kong Huafa and (iii) parties acting in concert with any of them (including the Transferors and members of the Liu Family)
“Joint Announcement”	the joint announcement issued by the Company, Zhuhai Huafa Industrial and Hong Kong Huafa dated 1 February 2021 in relation to, among other things, the Share Purchase Agreement, the Concert Party Agreement, and the Offers
“Last Trading Day”	29 January 2021, being the last trading day immediately prior to the release of the Joint Announcement

DEFINITIONS

“Latest Practicable Date”	27 April 2021, being the latest practicable date prior to the printing of this Composite Document for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Liu Family”	Mr. Liu Donghai, Mr. Liu Songshan, Ms. Liu Wencui, Ms. Liu Hua, Ms. Liu Yongmei and Ms. Liu Wenli, all of whom are siblings to each other
“Loan”	has the meaning given to it in the section headed “the Loan Agreement – Subject matter” of the “Letter from the Board” in this Composite Document
“Loan Agreement”	the loan agreement entered into between the Transferors, the Company and Zhuhai Huafa Industrial dated 29 January 2021, the major terms of which are set out in the section headed “the Loan Agreement” of the “Letter from the Board” in this Composite Document
“Mr. Liu Donghai”	Mr. Liu Donghai, an executive Director, a shareholder as to 22.12% of Di Er Tong and a director of and a shareholder as to 84.72% of Digital Science & Technology, respectively as at the Latest Practicable Date
“Mr. Liu Hua”	Mr. Liu Hua, a shareholder as to 4.74% of Di Er Tong and as to 5.06% of Digital Science & Technology, respectively as at the Latest Practicable Date
“Mr. Liu Songshan”	Mr. Liu Songshan, a shareholder as to 45.90% of Di Er Tong as at the Latest Practicable Date
“Ms. Liu Wencui”	Ms. Liu Wencui, an executive Director, a director and a shareholder as to 8.78% of Di Er Tong and a shareholder as to 3.93% of Digital Science & Technology, respectively as at the Latest Practicable Date
“Ms. Liu Wenli”	Ms. Liu Wenli, a shareholder as to 12.72% of Di Er Tong and as to 1.23% of Digital Science & Technology, respectively as at the Latest Practicable Date

DEFINITIONS

“Ms. Liu Yongmei”	Ms. Liu Yongmei, a shareholder as to 4.74% of Di Er Tong and as to 5.06% of Digital Science & Technology, respectively as at the Latest Practicable Date
“Offer Period”	has the meaning ascribed to it under the Takeovers Code
“Offeror Group”	Zhuhai Huafa Industrial and Hong Kong Huafa
“Offers”	the Domestic Share Offer and the H Share Offer
“Overseas Independent Shareholder(s)”	Independent Shareholder(s) whose addresses, as shown on the register of members of the Company, are outside Hong Kong
“Pledge”	has the meaning given to it in the section headed “the Concert Party Agreement – Subject matter” of the “Letter from the Board” in this Composite Document
“PRC”	the People’s Republic of China
“Relevant Period”	the period commencing on 1 August 2020, being the date falling six months preceding the commencement of the Offer Period (i.e. 1 February 2021) and ending on the Latest Practicable Date
“Restricted Assets”	(i) equity interest held by Digital Science & Technology in 撫順深商投商用置業有限公司 (Fushun Shenshangtou Commercial Property Co., Ltd.*) and the real property held by such company as at the date of the Share Purchase Agreement; (ii) account receivables of Digital Science & Technology for amounts due from 撫順深商投商用置業有限公司 (Fushun Shenshangtou Commercial Property Co., Ltd.*); and (iii) 2,314 car park spaces in Chengdu owned by 四川迪信通置業有限公司 (Sichuan Dixintong Property Co., Ltd.*), an indirect subsidiary of Digital Science & Technology established in the PRC
“RMB”	Renminbi, the lawful currency of the PRC
“Sale Shares”	109,869,060 Domestic Shares (representing approximately 15% of the entire issued share capital of the Company) acquired by Zhuhai Huafa Industrial pursuant to the Share Purchase Agreement

DEFINITIONS

“Share Purchase Agreement”	the share purchase agreement dated 29 January 2021 entered into between the Transferors, Zhuhai Huafa Industrial and the Liu Family in relation to the sale and purchase of the Sale Shares
“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)”	Domestic Share(s) and H Share(s)
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiaries”	has the meaning ascribed to it under the Listing Rules
“Supervisors”	supervisors of the Company
“Takeovers Code”	the Code on Takeovers and Mergers issued by the SFC, as amended, supplemented or otherwise modified from time to time
“Tax Liabilities”	has the meaning given to it in the section headed “the Share Purchase Agreement – Tax Indemnity” of the “Letter from the Board” in this Composite Document
“Term”	has the meaning given to it in the section headed “the Concert Party Agreement – Term of the Concert Party Agreement” of the “Letter from the Board” in this Composite Document
“Transferors”	Di Er Tong and Digital Science & Technology
“Zhuhai Huafa”	Zhuhai Huafa Group Co., Ltd.* (珠海華發集團有限公司), a PRC state-owned enterprise wholly-owned by Zhuhai SASAC and the controlling shareholder of Zhuhai Huafa Industrial and Hong Kong Huafa as at the Latest Practicable Date
“Zhuhai Huafa Industrial”	Zhuhai Huafa Industrial Investment Holding Co., Ltd.* (珠海華發實體產業投資控股有限公司), a limited liability company established in the PRC

DEFINITIONS

“Zhuhai SASAC” State-owned Assets Supervision and Administration Commission of Zhuhai Municipal People’s Government* (珠海市人民政府國有資產監督管理委員會)

“%” per cent

In this Composite Document, unless otherwise stated, amounts denominated in RMB have been translated into HK\$ at the exchange rate of RMB0.8335 to HK\$1.00, being the exchange rate of RMB against HK\$ as announced by the People’s Bank of China on 1 February 2021, being the date of the Joint Announcement. No representation is made that the HK\$ amounts could have been or could be converted into RMB at such rate or any other rate or at all. Certain amounts and percentage figures in this Composite Document have been subject to rounding adjustments.

* For identification purposes only

LETTER FROM GUOTAI JUNAN CAPITAL



27/F, Grand Millennium Plaza
181 Queen's Road Central
Central, Hong Kong

30 April 2021

To the Independent Shareholders

Dear Sirs

**MANDATORY CONDITIONAL CASH OFFER BY
GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED ON BEHALF OF
HONG KONG HUAFA INVESTMENT HOLDINGS LIMITED
TO ACQUIRE ALL THE ISSUED H SHARES OF
BEIJING DIGITAL TELECOM CO., LTD.**

INTRODUCTION

Reference is made to the Joint Announcement and the Completion Announcement. On 7 April 2021, Completion under the Share Purchase Agreement took place, upon which Zhuhai Huafa Industrial acquired 109,869,060 Domestic Shares, representing approximately 15% of the entire issued share capital of the Company as at the Latest Practicable Date. In addition, pursuant to and subject to the terms of the Concert Party Agreement, Zhuhai Huafa Industrial obtained control over 168,362,098 Domestic Shares held by the Transferors upon Completion, representing approximately 22.99% of the entire issued share capital of the Company as at the Latest Practicable Date. In aggregate, upon Completion, Zhuhai Huafa Industrial has acquired or controlled approximately 37.99% of the voting rights of the Company as at the Latest Practicable Date.

Pursuant to Rule 26.1 of the Takeovers Code, Zhuhai Huafa Industrial is required to make a mandatory conditional general offer in cash for all the outstanding Domestic Shares and H Shares other than those already owned or agreed to be acquired by Zhuhai Huafa Industrial or parties acting in concert with it. In compliance with the Takeovers Code, Zhuhai Huafa Industrial is making the Domestic Share Offer and Guotai Junan Securities, on behalf of Hong Kong Huafa, is making the H Share Offer.

This letter forms part of this Composite Document and sets out, amongst other things, the details of the Offers, certain information on the Offeror Group, and the intention of the Offeror Group on the Group. Further terms of the Offers and the procedures for acceptances of the Offers are set out in Appendix I to this Composite Document and the accompanying Forms of Acceptance.

Independent Shareholders are strongly advised to carefully consider the information contained in the "Letter from the Board", the "Letter from the Independent Board Committee" and the "Letter from Innovax" as set out in this Composite Document before reaching a decision as to whether or not to accept the Offers.

LETTER FROM GUOTAI JUNAN CAPITAL

INFORMATION OF THE OFFERS

Consideration for the Offers

Zhuhai Huafa Industrial is making the Domestic Share Offer and Guotai Junan Securities, on behalf of Hong Kong Huafa, is hereby making the H Share Offer for all the outstanding Domestic Shares and H Shares respectively, other than those already owned or agreed to be acquired by Zhuhai Huafa Industrial or parties acting in concert with it, on the following basis:

For each Domestic Share RMB3.2030 in cash

For each H Share HK\$3.8429 in cash

The H Share Offer Price of HK\$3.8429 per H Share is equivalent to RMB3.2030, being the Domestic Share Offer Price and converted into Hong Kong dollars at the exchange rate of RMB0.8335 to HK\$1.00, being the exchange rate of RMB against HK\$ as announced by the People's Bank of China on 1 February 2021, being the date of the Joint Announcement.

The Shares acquired under the Offers shall be fully paid and free from all Encumbrances together with all rights attaching to them on or after the date on which the Offers are made (i.e. the date of this Composite Document), including the right to receive in full all dividends or other distributions, if any, declared, made or paid on or after the date on which the Offers are made.

The Company confirms that as at the Latest Practicable Date, (i) it has not declared any dividend which remains unpaid, (ii) it does not intend to declare any dividend the record date of which will fall on or after the date of this Composite Document, and (iii) it does not intend to make, declare or pay any future dividend or make other distributions until the closing of the Offers.

Condition of the Offers

The Offers are only conditional upon valid acceptances of the Offers being received (and not, where permitted, withdrawn) by 4:00 p.m. on the date of closing of the Offers as stated in this Composite Document (or such later time or date as the Offeror Group may, subject to the Takeovers Code, decide) in respect of Shares which, together with Shares acquired before or during the Offers, will result in the Offeror Group and parties acting in concert (including the Transferors and the Liu Family) with it holding more than 50% of the voting rights of the Company. If the foregoing condition cannot be fulfilled by the date of closing of the Offers, the Offers will not become unconditional and will lapse. Further details of the terms of the Offers and the procedures for acceptance are set out in Appendix I to this Composite Document and the accompanying GREEN Form of Acceptance and WHITE Form of Acceptance.

LETTER FROM GUOTAI JUNAN CAPITAL

The Offers may or may not become unconditional. Holders of the Shares and potential investors should exercise caution when dealing in securities of the Company and if they are in any doubt about their position, they should consult their professional advisers.

Comparison of value

The Domestic Share Offer Price of RMB3.2030 and the H Share Offer Price of HK\$3.8429 represent:

- (1) a premium of approximately 5.57% to the closing price of HK\$3.6400 per H Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (2) a premium of approximately 7.04% to the closing price of HK\$3.5900 per H Share as quoted on the Stock Exchange on the Last Trading Day;
- (3) a premium of approximately 19.27% to the average closing price of HK\$3.2220 per H Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;
- (4) a premium of approximately 37.39% to the average closing price of HK\$2.7970 per H Share as quoted on the Stock Exchange for the last 10 consecutive trading days up to and including the Last Trading Day;
- (5) a premium of approximately 65.98% to the average closing price of HK\$2.3153 per H Share as quoted on the Stock Exchange for the last 30 consecutive trading days up to and including the Last Trading Day; and
- (6) a discount of approximately 47.25% over the audited consolidated net asset value of the Company of approximately RMB6.0720 per Share as at 31 December 2020.

Highest and lowest H Share prices

The highest and lowest closing prices of the H Shares as quoted on the Stock Exchange during the Relevant Period were HK\$3.76 per H Share on 14 and 15 April 2021, and HK\$1.43 per H Share on 11 and 12 August 2020, respectively.

TOTAL CONSIDERATION UNDER THE OFFERS

As at the Latest Practicable Date, there were 337,700,000 Domestic Shares and 394,760,400 H Shares in issue. On the basis that the Domestic Share Offer Price is RMB3.2030 per Domestic Share and the H Share Offer Price is HK\$3.8429 per H Share, the entire issued share capital of the Company is valued at approximately HK\$2,814,772,071.

Based on the foregoing and taking into account the 168,362,098 Domestic Shares held by the Transferors, the aggregate cash consideration payable by Zhuhai Huafa Industrial under the Domestic Share Offer (assuming full acceptances under the Domestic

LETTER FROM GUOTAI JUNAN CAPITAL

Share Offer) will be approximately RMB190,478,701 (equivalent to approximately HK\$228,528,736), and the aggregate cash consideration payable by Hong Kong Huafa under the H Share Offer (assuming full acceptances under the H Share Offer) will be approximately HK\$1,517,024,742.

CONFIRMATION OF FINANCIAL RESOURCES SUFFICIENCY

Zhuhai Huafa Industrial intends to finance the consideration payable under the Domestic Share Offer and Hong Kong Huafa intends to finance the consideration under the H Share Offer from the internal resources of Zhuhai Huafa Industrial and Hong Kong Huafa respectively. Guotai Junan Capital, as the financial adviser to the Offeror Group, is satisfied that sufficient resources are available to the Offeror Group to satisfy the amount of funds required for full acceptance of the Offers.

EFFECTS OF ACCEPTING THE OFFERS

By accepting the Domestic Share Offer or the H Share Offer, the Shareholders will sell their tendered Shares to Zhuhai Huafa Industrial or Hong Kong Huafa (as the case may be) free from all Encumbrances and together with all rights attaching to them including the right to receive in full all dividends and other distributions, if any, declared, made or paid on or after the date on which the Offers are made, being the date of this Composite Document. The Company confirms that as at the Latest Practicable Date, (i) it has not declared any dividend which remains unpaid, (ii) it does not intend to declare any dividend the record date of which will fall on or after the date of the Composite Document, and (iii) it does not intend to make, declare or pay any future dividend or make other distributions until the closing of the Offers.

Acceptance of the Offers will be irrevocable and will not be capable of being withdrawn, except as permitted under the Takeovers Code.

HONG KONG STAMP DUTY

Seller's Hong Kong ad valorem stamp duty arising in connection with acceptances of the H Share Offer will be payable by the relevant Shareholders at a rate of 0.1% of (i) the market value of the H Shares; or (ii) the consideration payable by Hong Kong Huafa in respect of the relevant acceptances of the H Share Offer, whichever is higher, and the amount of such duty will be deducted from the cash amount payable by Hong Kong Huafa to the relevant Shareholders accepting the H Share Offer. Hong Kong Huafa will arrange for payment of the seller's Hong Kong ad valorem stamp duty on behalf of the relevant Shareholders accepting the H Share Offer and will pay the buyer's Hong Kong ad valorem stamp duty in connection with the acceptance of the H Share Offer and the transfer of the Shares in accordance with the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong).

LETTER FROM GUOTAI JUNAN CAPITAL

TAXATION ADVICE

Shareholders are recommended to consult their own professional advisers if they are in any doubt as to the taxation implications of accepting or rejecting the Offers. None of the Offeror Group and/or parties acting in concert, the Company, Guotai Junan Capital, Guotai Junan Securities, Innovax, and their respective directors, officers, agents or associates or any other person involved in the Offers accepts any responsibility for any taxation effects on, or liabilities of, any persons as a result of their acceptance or rejection of the Offers.

COMPULSORY ACQUISITION

The Offeror Group does not intend to exercise any right which may be available to it to acquire compulsorily any Shares not tendered for acceptance under the Offers.

SHAREHOLDINGS AND DEALING IN SECURITIES OF THE COMPANY

Your attention is drawn to the sections headed “5. Disclosure of Interests in Shares” “6. Dealings in Securities and Other Arrangements” of Appendix III to this Composite Document. Save as disclosed in those sections, as at the Latest Practicable Date, there are no other shareholdings in the Company:

- (1) of the Offeror Group;
- (2) in which the directors of Zhuhai Huafa Industrial and/or Hong Kong Huafa are interested;
- (3) which any persons acting in concert with the Offeror Group own or control;
- (4) which the Offeror Group or any persons acting in concert with it has borrowed or lent; or
- (5) which the persons identified in paragraphs (1) to (4) above have dealt for value during the period commencing six months prior to the commencement of the Offer Period.

Nor are there any other arrangements of the kind referred to in the third paragraph of Note 8 to Rule 22 of the Takeovers Code which exist between the Offeror Group, or any person acting in concert with it, and any other person.

INFORMATION ON THE GROUP

The Company is a joint stock limited company established in the PRC, the H Shares of which are listed on the Stock Exchange. The Group focuses on the sales of mobile telecommunication devices and the provision of related services. With its extensive offline sales channels and online sales platform, the Group provides comprehensive services to consumers, ranging from sales of mobile phone hardware and accessories, provision of value-added services for software, and provision of personalized services for mobile phones and aftersales services.

LETTER FROM GUOTAI JUNAN CAPITAL

Further details of the information on the Group are set out in the “Letter from the Board” of this Composite Document. Financial information of the Group is set out in Appendix II to this Composite Document.

INFORMATION ON THE OFFEROR GROUP AND ITS CONCERT GROUP

Zhuhai Huafa Industrial is a limited liability company established in the PRC, and is a direct wholly-owned subsidiary of Zhuhai Huafa, a state-owned enterprise wholly-owned by Zhuhai SASAC. Zhuhai Huafa Industrial is primarily engaged in equity investment and asset management.

Hong Kong Huafa is a limited liability company incorporated in Hong Kong, and is a direct wholly-owned subsidiary of Zhuhai Huafa, a state-owned enterprise wholly-owned by Zhuhai SASAC. Hong Kong Huafa is primarily engaged in investment holding.

Zhuhai Huafa is a large state-owned conglomerate in the PRC with its business operations primarily conducted in Zhuhai City, Guangdong Province, which is situated at the southern end of the Pearl River Delta Region. Zhuhai Huafa was established as a wholly state-owned enterprise in 1980 and is under the direct supervision of Zhuhai SASAC. Zhuhai Huafa and its subsidiaries initially focused on property development in Zhuhai, and has since expanded into other cities and diversified to include other businesses. Currently, Zhuhai Huafa and its subsidiaries are primarily engaged in six major businesses, namely, urban operations, financial services, property development, industrial investment, sales and trading and modern services. In addition, Zhuhai Huafa and its subsidiaries also engage in other businesses which are incidental to their six major businesses.

As at the Latest Practicable Date, the directors of Zhuhai Huafa Industrial are Ms. Guo Jin, Mr. Xie Hui, Mr. Xie Hao and Mr. Wang Zhe.

As at the Latest Practicable Date, the directors of Hong Kong Huafa are Mr. Li Guangning, Mr. Xie Wei, Mr. Guo Lingyong, Mr. Wu Jiang and Ms. Li Yanmei.

As at the Latest Practicable Date, the directors of Zhuhai Huafa are Mr. Li Guangning, Mr. Ye Yuhong, Mr. Xie Wei, Mr. Chen Yi, Ms. Zhou Youfen, Mr. Huang Jianbin and Mr. Li Weijie.

The ultimate beneficial owner of Zhuhai Huafa Industrial and Hong Kong Huafa are Zhuhai Huafa.

REASONS FOR THE OFFERS AND THE INTENTION OF THE OFFEROR GROUP IN RELATION TO THE GROUP

Reasons for the Offers and the long-term commercial justification for the proposed offer

The Offers are made to comply with the requirements of the Takeovers Code. Following the completion of the Share Purchase Agreement and pursuant to the Concert Party Agreement, the Offeror Group obtained the control of 278,231,158 Domestic Shares, representing 37.99% of the total issued share capital of the Company.

The management of the Offeror Group, when considering whether to carry out the Offers, has taken into account:

(1) the Company's growth and potential

The Offeror Group considers the Company to be an attractive acquisition opportunity. The Company has been committed to enhancing the sources of profit growth. In 2019, the Company acquired 15% of equity interests in China Ocean Intelligent Equipment Manufacturing (Shenzhen) Company Limited which is principally involved in production and imports and exports of smart devices and automation equipment.

The Company has also put great efforts in carrying out boundaryless retail business which enables consumers to buy whatever they want, whenever and wherever they want it, online, offline, or virtually. The Company has made significant progress in areas such as online and offline boundaryless fulfilment through its cooperation with JD.com. The Offeror Group believes that the Company can leverage its investment in the robotics industry and improve its order fulfilment services to strengthen its presence in the retail telecommunications sector in the PRC and globally.

(2) the prospects of the retail market of telecommunications devices

In the past year, many cross-border companies have had to conduct business in the form of remote offices. Employees are increasingly reliant on the use of smartphones and portable devices to access company data and participate in online training. Employees and businesses utilise their smartphones and portable devices for audio and video conferencing solutions to connect and collaborate with customers and colleagues.

On the retail front, the market has been evolving rapidly to appeal to digital-savvy Chinese consumers. Live streaming has gained traction in recent years as a practical way to market, communicate and sell products online. Real-time visuals and audio allow brands to showcase how their product functions, demonstrate various applications and respond to queries from consumers. Consumers in China are increasingly shifting away from traditional mass media and looking to mobile and electronic devices for information.

LETTER FROM GUOTAI JUNAN CAPITAL

The Offeror Group is optimistic about the long-term prospects of the retail market of telecommunications devices within the PRC. With the drive towards diversifying its online channels and promoting the operation of live broadcast, the Company is poised to follow the trends of the retail telecommunications market.

(3) *maximizing synergy between the Offeror Group and the Company*

Zhuhai Huafa's investment in consumer electronics companies such as Meizu Technology Co., Ltd. indicates its interest in such field. Zhuhai Huafa can leverage the Company's expansive footprint of 1,200 stores around the PRC to increase its presence in the greater China area. The Company's burgeoning presence is evidenced by its retail stores which are located in commercial complexes and prime locations in cities and densely populated areas.

Further, the Offeror Group hopes to maximise synergies between the existing business of the Company with the real estate business of Zhuhai Huafa in relation to the land reserves of the Company. With a prominent presence in the consumer electronics market in the PRC, the Company is well-positioned to appeal to the digital savvy Chinese consumers and aid Zhuhai Huafa in implementing technology and smart devices in its real estate sector.

For the reasons set out above, the Offeror Group is of the view that, the acquisition of the Domestic Shares and H Shares would provide an overall benefit to both the Offeror Group and the Company.

Operational matters

Following the closing of the Offers, the Offeror Group intends to continue developing the Company's existing principal business without major redeployment of the Company's fixed assets and to continue with the employment of the Group's employees. The Offeror Group also intends to strengthen the strategic management and control of the Company, and to scientifically formulate the strategic objectives of the Company by combining them with Zhuhai Huafa's future development strategy, the details of which are as set out as follows:

- (1) strengthening the business synergy between Zhuhai Huafa and the Company, promoting the business of the Company to serve Zhuhai Huafa, serve Zhuhai, and establish an industrial development base in Zhuhai for computer, communication and consumer electronics products;
- (2) strengthening the support of the Company for the commercial operations of Zhuhai Huafa to increase its overall scale and strength;
- (3) maximizing synergies between the existing business of the Company with the real estate business of Zhuhai Huafa in relation to the land reserves of the Company;
- (4) moving the Company's registered address, headquarters, procurement centre and operational settlement centre to Zhuhai; and

LETTER FROM GUOTAI JUNAN CAPITAL

- (5) further optimizing the Company's offline business, expanding the Company's online business by cooperating with well-known e-commerce companies, expanding and strengthening the Company's wholesale business, and in relation to the Company's overseas markets, establishing the Company as a leading Chinese brand, focusing on Western Europe, stabilizing West Africa and expanding into Southeast Asia.

It is the intention of the Offeror Group to charge some or all of the securities acquired in pursuance of the Offers for its financing purposes. However, as at the Latest Practicable Date, the Offeror Group has not commenced any negotiation regarding the charge of such securities, nor has there been any specific plan or arrangement regarding the charge of such securities.

As disclosed in the Company's announcement dated 9 April 2021, the Company entered into an equity transfer agreement to dispose 100% of its equity interest in Beijing Digital (Spain) S.L.

PROPOSED CHANGE OF THE BOARD COMPOSITION

The Board is currently made up of three executive Directors, being Mr. Liu Donghai, Mr. Liu Yajun and Ms. Liu Wencui; three non-executive Directors, being Mr. Li Wenzhi, Mr. Yao Yanzhong and Mr. Lv Jing, and three independent non-executive Directors, being Mr. Lv Tingjie, Mr. Lv Pingbo, and Mr. Zhang Senquan.

Pursuant to the Share Purchase Agreement, the Transferors and the Liu Family have undertaken to Zhuhai Huafa Industrial that upon Completion, the Transferors and the Liu Family shall procure, at the earliest possible time permitted under the Takeovers Code, the Listing Rules, the articles of association of the Company and other applicable laws, that Zhuhai Huafa Industrial and its concert parties (excluding the Transferors and the Liu Family) shall have the right, at their sole discretion, depending on the number of non-executive Directors willing to resign at the direction of Zhuhai Huafa Industrial and its concert parties at the relevant time, to nominate either:

- A. not less than 6 executive or non-executive Directors and to procure:
 - (1) the amendment of the articles of association of the Company to increase the maximum number of Directors to not less than 11;
 - (2) the resignations of certain Directors to be specified by Zhuhai Huafa Industrial; and
 - (3) the appointment of not less than 6 persons to be nominated by Zhuhai Huafa Industrial as executive or non-executive Directors;

LETTER FROM GUOTAI JUNAN CAPITAL

in each case subject to the requirements of the Takeovers Code, the Listing Rules, the articles of association of the Company and other applicable laws; or

- B. not less than 8 executive or non-executive Directors and to procure:
- (1) the amendment of the articles of association of the Company to increase the maximum number of Directors to not less than 15; and
 - (2) the appointment of not less than 8 persons to be nominated by Zhuhai Huafa Industrial as executive or non-executive Directors;

in each case subject to the requirements of the Takeovers Code, the Listing Rules, the articles of association of the Company and other applicable laws.

It is currently intended that Ms. Liu Wencui, an executive Director of the Company, will resign from her position at such time as the Offeror Group considers appropriate but in any event following the earliest possible time permitted under the Takeovers Code, the Listing Rules, the articles of association of the Company and other applicable laws.

As at the Latest Practicable Date, Ms. Liu Wencui has tendered her resignation as an executive Director of the Company which will only become effective at the earliest possible time permitted under the Takeovers Code. The Offeror Group has nominated a new executive Director, namely Mr. Gao Dali, to fill the vacancy of the Board upon the resignation of Ms. Liu Wencui becoming effective. The appointment of the new executive Director will be subject to the approval of the Shareholders at a general meeting of the Company. The Company will issue a circular and a notice of extraordinary general meeting to convene the said general meeting and provide more details on the proposed appointment of executive Director.

Save for the aforesaid, the Offeror Group has not yet identified any person to be nominated as new Directors of the Company. It is currently expected that, apart from the nomination of Mr. Gao Dali by the Offeror Group as new executive Director, other new Directors will be nominated by the Offeror Group at a later stage and their appointment, which will be subject to approval of the Shareholders at a general meeting of the Company, will only become effective after the closing of the Offers. Any further changes to the composition of the Board and senior management of the Company will be announced by the Company and made in compliance with the Takeovers Code, the Listing Rules, the articles of association of the Company and other applicable laws.

LETTER FROM GUOTAI JUNAN CAPITAL

The biography of the proposed new executive Director nominated by the Offeror Group is set out below:

Gao Dali (高大力) (“**Mr. Gao**”), 32 years old, served as an assistant audit manager in KPMG Huazhen LLP Shenzhen Branch (畢馬威華振會計師事務所(特殊普通合伙)深圳分所) from October 2014 to June 2017 and was mainly responsible for the annual audit and internal control audit of listed real estate companies. From June 2017 to February 2018, he served as the audit supervisor of the internal audit office in Huaafa Industrial Co., Ltd. Zhuhai (珠海華發實業股份有限公司) and the investment manager of the investment management department in Zhuhai Huaafa Huayi Investment Holdings Co., Ltd. (珠海華發華宜投資控股有限公司). From March 2018 to September 2019, he served as the investment manager of the Strategic Mergers and Acquisitions Management Center in Zhuhai Huaafa Group Co., Ltd. (珠海華發集團有限公司) and was responsible for strategic mergers and acquisitions and investment business. He has served as the investment manager of the Strategic Investment Management Center in Zhuhai Huaafa Industrial Investment Holding Co., Ltd. (珠海華發實體產業投資控股有限公司) since October 2019 and is responsible for strategic mergers and acquisitions and investments.

Mr. Gao obtained a bachelor’s degree in management from the Beijing Institute of Technology (北京理工大學) in June 2012, and a master’s degree in business administration (MBA) from the University of La Verne in the United States of America in May 2014.

The proposed term of office, level of remuneration of Mr. Gao as an executive Director shall be determined and announced by the Company in due course. As at the Latest Practicable Date, the Company has not entered into a service contract with Mr. Gao in respect of his proposed appointment as an executive Director.

Save as disclosed above, as at the Latest Practicable Date, Mr. Gao (i) did not hold, and had not in the last three years held any other position in the Company or any of its subsidiaries; (ii) had not held any other directorship in public companies the securities of which are listed on any securities market in Hong Kong or overseas in the last three years; (iii) had no other major appointments or professional qualifications; (iv) did not have any other relationship with any Director, senior management or substantial or controlling Shareholder of the Company; and (v) did not have and was not deemed to have any interests in any Shares within the meaning of Part XV of the SFO.

Save as disclosed above, as at the Latest Practicable Date, there were no other matters relating to Mr. Gao’s proposed appointment that need to be brought to the attention of the Shareholders nor any information to be disclosed pursuant to the requirements of Rules 13.51(2)(h) to 13.51(2)(v) of the Listing Rules.

Furthermore, Zhuhai Huaafa Industrial may take steps to optimize the organizational structure of the Company based on its management needs, and may nominate candidates to the Board to be appointed as the chief business officer, chief financial officer, chief strategy officer and chief human resources officer of the Company respectively. The Transferors and the Liu Family shall exercise their voting rights to procure that the candidates nominated by Zhuhai Huaafa Industrial shall be appointed by the Company at the earliest possible time permitted under the Takeovers Code, the Listing

LETTER FROM GUOTAI JUNAN CAPITAL

Rules, the articles of association of the Company and other applicable laws, and take such other steps including but not limited to procuring the Company to sign employment contracts with the candidates nominated by Zhuhai Huafa Industrial, recommending the nomination of such candidates to the Board, and procuring the Directors appointed by them to vote in favour of the appointment of such candidates at the relevant Board meetings, in each case subject to the requirements of the Takeovers Code, the Listing Rules, the articles of association of the Company and other applicable laws.

No benefits have been or will be given to any Directors as compensation for loss of office or otherwise in connection with the Offers.

PUBLIC FLOAT AND MAINTAINING THE LISTING STATUS OF THE COMPANY

The Offeror Group intends to maintain the listing of the H Shares on the Stock Exchange after the closing of the Offers.

The Stock Exchange has stated that if, at the close of the Offers, less than the minimum prescribed percentage applicable to the Company, being 25% of the issued Shares, are held by the public, or if the Stock Exchange believes that:

- (1) a false market exists or may exist in the trading of the H Shares; or
- (2) there are insufficient Shares in public hands to maintain an orderly market;

it will consider exercising its discretion to suspend dealings in the H Shares.

In order to ensure that within a reasonable period after the closing of the Offers, there will be not less than 25% of the Company's total number of issued Shares held by the public, the directors of the Offeror Group and the new directors to be appointed to the Board will jointly and severally undertake to the Stock Exchange to take appropriate steps to ensure that sufficient public float exists in the Shares. The steps that the Offeror Group may take include selling the Shares it has acquired from the Offers to selected independent third parties or in the market. Announcement(s) will be made in this regard as and when appropriate in compliance with the Listing Rules.

OVERSEAS INDEPENDENT SHAREHOLDERS

The Overseas Independent Shareholders should observe any applicable legal or regulatory requirements and, where necessary, seek legal advice. It is the responsibilities of the Overseas Independent Shareholders who wish to accept the Offers to satisfy themselves as to the full observance of the laws and regulations of the relevant jurisdictions in connection with the acceptance of the Offers (including the obtaining of any governmental or other consent which may be required or the compliance with other necessary formalities and the payment of any transfer or other taxes due by such Overseas Independent Shareholders in respect of such jurisdictions).

FURTHER MATTERS RELATING TO THE OFFERS

Please refer to Appendix I to this Composite Document for information regarding the acceptance of the Offers and settlement of consideration.

LETTER FROM GUOTAI JUNAN CAPITAL

GENERAL

To ensure equal treatment of all holders of H Shares, registered holders who hold the H Shares as nominees for more than one beneficial owner should, as far as practicable, treat the holding of each beneficial owner separately. It is essential for the beneficial owners of the H Shares whose investments are registered in the names of nominees to provide instructions to their nominees of their intention with regards to the H Share Offer.

All documents and remittances sent to the holders of H Shares will be sent to them by ordinary post at their own risk. Such documents and remittances will be sent to the relevant Shareholders at their respective addresses as they appear in the register of members of the Company or in the case of joint holders of H Shares, to the Shareholder whose name appears first in the register of members of the Company. None of the Company, the Offeror Group, Guotai Junan Capital, Guotai Junan Securities, Innovax or any of their respective directors or professional advisers or other parties involved in the Offers will be responsible for any loss or delay in transmission or any other liabilities that may arise as a result thereof.

ADDITIONAL INFORMATION

Shareholders are strongly encouraged and advised to read this Composite Document carefully, including the “Letter from Zhuhai Huafa Industrial”, the “Letter from the Board”, the “Letter from the Independent Board Committee” and the “Letter from Innovax”, as to whether the terms of the Offers are fair and reasonable so far as the Shareholders are concerned, and to consult their professional advisers as they see fit and necessary, before deciding whether or not to accept the Offers. Shareholders’ attention is further drawn to the additional information set out in the appendices to this Composite Document, which form part of this Composite Document.

Yours faithfully,
For and on behalf of
Guotai Junan Capital Limited
Anthony Wong
Deputy General Manager



华发集团旗下企业

珠海華發實體產業投資控股有限公司

**ZHUHAI HUAFA INDUSTRIAL
INVESTMENT HOLDING CO., LTD.***

(a limited liability company established in the People's Republic of China)

Unit A8, 1/F, Block 4
153 Rong'ao Road
Hengqin New Area
Zhuhai, the PRC

30 April 2021

To the Independent Shareholders

Dear Sirs,

**MANDATORY CONDITIONAL CASH OFFER BY
ZHUHAI HUAFA INDUSTRIAL INVESTMENT HOLDING CO., LTD.*
FOR ALL THE ISSUED DOMESTIC SHARES OF BEIJING DIGITAL
TELECOM CO., LTD. (OTHER THAN THOSE ALREADY OWNED OR
AGREED TO BE ACQUIRED BY ZHUHAI HUAFA INDUSTRIAL
INVESTMENT HOLDING CO., LTD.* AND PARTIES ACTING IN
CONCERT WITH IT)**

INTRODUCTION

Reference is made to the Joint Announcement and the Completion Announcement. On 7 April 2021, Completion under the Share Purchase Agreement took place, upon which Zhuhai Huafa Industrial acquired 109,869,060 Domestic Shares, representing approximately 15% of the entire issued share capital of the Company as at the Latest Practicable Date. In addition, pursuant to and subject to the terms of the Concert Party Agreement, Zhuhai Huafa Industrial obtained control over 168,362,098 Domestic Shares held by the Transferors upon Completion, representing approximately 22.99% of the entire issued share capital of the Company as at the Latest Practicable Date. In aggregate, upon Completion, Zhuhai Huafa Industrial has acquired or controlled approximately 37.99% of the voting rights of the Company as at the Latest Practicable Date.

Pursuant to Rule 26.1 of the Takeovers Code, Zhuhai Huafa Industrial is required to make a mandatory conditional general offer in cash for all the outstanding Domestic Shares and H Shares other than those already owned or agreed to be acquired by Zhuhai Huafa Industrial or parties acting in concert with it. In compliance with the Takeovers Code, Zhuhai Huafa Industrial is making the Domestic Share Offer and Guotai Junan Securities, on behalf of Hong Kong Huafa, is making the H Share Offer.

LETTER FROM ZHUHAI HUAFU INDUSTRIAL

This letter forms part of this Composite Document and sets out, amongst other things, the details of the Domestic Share Offer. The terms of the Offers and the procedures for acceptances of the Offers are set out in Appendix I to this Composite Document and the accompanying Forms of Acceptance.

Independent Shareholders are strongly advised to carefully consider the information contained in the “Letter from the Board”, the “Letter from the Independent Board Committee” and the “Letter from Innovax” as set out in this Composite Document before reaching a decision as to whether to accept the Offers.

PRINCIPAL TERMS OF THE DOMESTIC SHARE OFFER

Zhuhai Huafu Industrial is hereby making the Domestic Share Offer on the following basis:

For each Domestic Share RMB3.2030 in cash

The Domestic Share Offer Price of RMB3.2030 per Domestic Share is the same as the purchase price per Sale Share under the Share Purchase Agreement which was arrived at after arm’s length negotiations between Zhuhai Huafu Industrial and the Transferors. Your attention is drawn to the comparison of value of the H Share Offer Price (which was equivalent to the Domestic Share Offer Price as converted into Hong Kong dollars) with the previous prices of the H Shares as quoted on the Stock Exchange in the section headed “Information of the Offers – Comparison of value” in the “Letter from Guotai Junan Capital” of this Composite Document. The Domestic Shares acquired under the Domestic Share Offer shall be fully paid and free from all Encumbrances together with all rights attaching to them on or after the date on which the Offers are made (i.e. the date of this Composite Document), including the right to receive in full all dividends or other distributions, if any, declared, made or paid on or after the date on which the Offers are made.

The Company confirms that as at the Latest Practicable Date, (i) it has not declared any dividend which remains unpaid, (ii) it does not intend to declare any dividend the record date of which will fall on or after the date of this Composite Document, and (iii) it does not intend to make, declare or pay any future dividend or make other distributions until the closing of the Offers.

We advise readers to further review the “Letter from Guotai Junan Capital” of this Composite Document for additional information and details regarding the Offers.

The Domestic Share Offer may not become unconditional. Holders of Domestic Shares and potential investors should exercise caution when dealing in securities of the Company and if they are in any doubt about their position, they should consult their professional advisers.

LETTER FROM ZHUHAI HUAFA INDUSTRIAL

Zhuhai Huafa Industrial will be entitled to reject any acceptance in relation to the Domestic Share Offer which does not comply with the provisions and instructions contained in this Composite Document and in the GREEN Form of Acceptance, or which is otherwise incomplete, incorrect or invalid in any respect. If you wish to accept the Domestic Share Offer, it is your responsibility to ensure that the GREEN Form of Acceptance is properly completed in all respects and all required documents are provided. A decision by Zhuhai Huafa Industrial to reject any acceptance on the grounds that it has been invalidly, incorrectly or incompletely signed, completed or submitted will be final and binding and Zhuhai Huafa Industrial shall not accept any responsibility or liability for the consequences of such a decision.

Further details of the terms of the Domestic Share Offer and the procedures for acceptance are set out in Appendix I to this Composite Document and the accompanying GREEN Form of Acceptance. Holders of Domestic Shares are strongly advised to consider carefully the information contained in Appendix I to this Composite Document for the procedures of accepting the Domestic Share Offer and the settlement of consideration. Acceptance of the Domestic Share Offer will be irrevocable and will not be capable of being withdrawn, except as permitted under the Takeovers Code.

For further details of the H Share Offer, please refer to the “Letter from Guotai Junan Capital” which precedes this letter in the Composite Document.

Yours faithfully,
For and on behalf of
Zhuhai Huafa Industrial Investment Holding Co., Ltd.*
珠海華發實體產業投資控股有限公司
GUO Jin
Director

* For identification purposes only



北京迪信通商貿股份有限公司
Beijing Digital Telecom Co., Ltd.

(a joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock Code: 6188)

Executive Directors:

Mr. Liu Donghai (*Chairman*)
Mr. Liu Yajun
Ms. Liu Wencui

Non-executive Directors:

Mr. Li Wenzhi
Mr. Yao Yanzhong
Mr. Lv Jing

Independent Non-executive Directors:

Mr. Lv Tingjie
Mr. Lv Pingbo
Mr. Zhang Senquan

Registered office:

No. 101, 4/F,
C Yi'an Business Building
18 Building Yi'an Jiayuan
Beiwa West
Haidian District
Beijing
the PRC

*Principal Place of Business
in Hong Kong:*

Unit D, 16/F
MG Tower
133 Hoi Bun Road
Kwun Tong
Hong Kong

30 April 2021

To the Independent Shareholders

Dear Sirs,

COMPOSITE DOCUMENT IN RELATION TO

- (1) THE MANDATORY CONDITIONAL CASH OFFER BY ZHUHAI HUAFU INDUSTRIAL INVESTMENT HOLDING CO., LTD* FOR ALL THE ISSUED DOMESTIC SHARES OF BEIJING DIGITAL TELECOM CO., LTD. (OTHER THAN THOSE ALREADY OWNED OR AGREED TO BE ACQUIRED BY ZHUHAI HUAFU INDUSTRIAL INVESTMENT HOLDING CO., LTD* AND PARTIES ACTING IN CONCERT WITH IT); AND**
- (2) THE MANDATORY CONDITIONAL CASH OFFER BY GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED ON BEHALF OF HONG KONG HUAFU INVESTMENT HOLDINGS LIMITED TO ACQUIRE ALL THE ISSUED H SHARES OF BEIJING DIGITAL TELECOM CO., LTD.**

LETTER FROM THE BOARD

INTRODUCTION

Reference is made to the Joint Announcement and the Completion Announcement.

The Board has been informed by the Transferors that the Transferors, together with the Liu Family, entered into the Share Purchase Agreement and the Concert Party Agreement with Zhuhai Huafa Industrial on 29 January 2021. On 7 April 2021, Completion under the Share Purchase Agreement took place, upon which Zhuhai Huafa Industrial acquired 109,869,060 Domestic Shares, representing approximately 15% of the entire issued share capital of the Company as at the Latest Practicable Date. In addition, pursuant to and subject to the terms of the Concert Party Agreement, Zhuhai Huafa Industrial obtained control over 168,362,098 Domestic Shares held by the Transferors upon Completion, representing approximately 22.99% of the entire issued share capital of the Company as at the Latest Practicable Date. In aggregate, upon Completion, Zhuhai Huafa Industrial has acquired or controlled approximately 37.99% of the voting rights of the Company as at the Latest Practicable Date.

THE SHARE PURCHASE AGREEMENT

A summary of the major terms of the Share Purchase Agreement is set out below.

Date: 29 January 2021 (after trading hours)

Parties: (i) the Transferors;
(ii) the Liu Family; and
(iii) Zhuhai Huafa Industrial.

Subject matter

Pursuant to the Share Purchase Agreement, the Transferors have sold, and Zhuhai Huafa Industrial has purchased, the Sale Shares, the details of which are as set forth below:

- (1) Di Er Tong has sold, and Zhuhai Huafa Industrial has purchased, an aggregate of 101,300,000 Domestic Shares (representing approximately 13.83% of the entire issued share capital of the Company as at the Latest Practicable Date and all Domestic Shares held by Di Er Tong immediately prior to Completion) for an aggregate consideration of RMB324,454,127 (equivalent to approximately HK\$389,267,099); and
- (2) Digital Science & Technology has sold, and Zhuhai Huafa Industrial has purchased, an aggregate of 8,569,060 Domestic Shares (representing approximately 1.17% of the entire issued share capital of the Company as at the Latest Practicable Date) for an aggregate consideration of RMB27,445,873 (equivalent to approximately HK\$32,928,462).

The pledge of 63,270,000 Domestic Shares (which forms part of the Sale Shares) previously granted by Di Er Tong in favour of Beijing Jingdixin Technology Company

LETTER FROM THE BOARD

Limited* (北京京迪信科技有限公司) was released and a new pledge of 63,270,000 Domestic Shares (which form part of the Entrusted Shares) was granted by Digital Science & Technology in favour of the same pledgee on the same date. The Sale Shares were sold to Zhuhai Huafa Industrial pursuant to the Share Purchase Agreement, free from Encumbrances and together with all rights attaching to them (including but not limited to all rights to dividends or distributions declared on the Sale Shares at any time on or after the date of Completion). Following Completion, the Transferors hold a total of 168,362,098 Domestic Shares (which form the Entrusted Shares), of which 130,332,098 Domestic Shares held by Digital Science & Technology are subject to the Existing Share Pledges.

Consideration for the Sale Shares

The total consideration for the Sale Shares was RMB351,900,000 (equivalent to approximately HK\$422,195,561), or RMB3.2030 per Sale Share (equivalent to approximately HK\$3.8429), which was determined among Zhuhai Huafa Industrial and the Transferors after arms' length negotiations, taking into account (i) the trading price and the trading volume of the H Shares of the Company, (ii) the unaudited consolidated net asset value of the Group as at 30 June 2020, (iii) the liquidity of the Domestic Shares and (iv) the future prospects of the Company.

Pursuant to the terms of the Share Purchase Agreement and the Loan Agreement, at Completion, Zhuhai Huafa Industrial paid the consideration for the Sale Shares (after deducting the relevant tax payable by the Transferors) in the amount of RMB291,508,500.85 into an escrow account (the "**Escrow Account**") and paid an amount equal to the relevant tax payable by the Transferors to an account designated by the Transferors, upon which Zhuhai Huafa Industrial's obligation to pay the consideration for the Sale Shares under the Share Purchase Agreement was deemed fulfilled.

Completion

Completion under the Share Purchase Agreement took place on 7 April 2021.

Tax Indemnity

If the Company suffers any losses or expenses in relation to any material tax liabilities concerning the Company after Completion, its subsidiaries and/or its principal associates (the companies in which the Company holds not more than 50% of the issued shares which have a significant impact on the business operation of the Company) that were subsisting prior to Completion (the "**Tax Liabilities**") and such Tax Liabilities exceed RMB30,000,000, Zhuhai Huafa Industrial shall have the right to require the Transferors and the Liu Family to jointly and severally indemnify the Company for the portion of such Tax Liabilities that exceed RMB30,000,000.

Guarantees

Zhuhai Huafa Industrial shall have the right to enforce the Restricted Assets if the Transferors and the Liu Family were in breach of the Share Purchase Agreement, the Loan Agreement or the Concert Party Agreement which results in any losses suffered by Zhuhai

LETTER FROM THE BOARD

Huafa Industrial and its related parties. The Transferors and the Liu Family have further undertaken not to create any additional Encumbrance on or dispose of any of the Restricted Assets during the period from the date of the Share Purchase Agreement to three (3) years after the date of Completion, unless assets of equal or higher value are offered to replace the Restricted Assets.

Further, Mr. Liu Donghai has undertaken to procure his spouse, Ms. Zhao Bin, to provide certain guarantee along with Mr. Liu Donghai to Zhuhai Huafa Industrial in connection with any liability arising from any breach of the Share Purchase Agreement, the Loan Agreement or the Concert Party Agreement by the Transferors and the Liu Family.

Entrusted Shares

In relation to the Entrusted Shares, the Transferors and the Liu Family have undertaken that they shall not (1) amend or supplement the terms of the Existing Share Pledges; or (2) create any additional Encumbrance on the Entrusted Shares apart from the Existing Share Pledges without the prior written consent of Zhuhai Huafa Industrial. For further details regarding the entrustment of the Entrusted Shares, please see the paragraph headed “The Concert Party Agreement – Subject matter” below.

Undertakings in relation to obligations under the Takeovers Code

Each of the Transferors and the Liu Family have provided, inter alia, the following undertakings in the Share Purchase Agreement:

- (1) each of the Transferors and the Liu Family shall comply with their obligations under the Takeovers Code, including but not limited to those in respect of disclosure of dealings;
- (2) during the Offer Period and the period of six (6) months after the Offer Period expires, unless with the prior written consent of Zhuhai Huafa Industrial, each of the Transferors and the Liu Family shall not directly or indirectly conduct any “dealing” (as defined in Appendix 10 of the Listing Rules) in the Shares or the relevant securities of the Company (as defined under the Takeovers Code);
- (3) each of the Transferors and the Liu Family shall procure and ensure that parties acting in concert with it and its related parties (including but not limited to spouse, close relatives and companies controlled by any of the foregoing parties) comply with the obligations mentioned above; and
- (4) each of the Transferors and the Liu Family shall compensate Zhuhai Huafa Industrial and its related parties for any losses, damages, expenses arising as a result of any of the above undertakings being inaccurate, incorrect, untrue, misleading, or a breach of any of the above undertakings.

LETTER FROM THE BOARD

THE CONCERT PARTY AGREEMENT

A summary of the major terms of the Concert Party Agreement is set out below.

Date: 29 January 2021 (after trading hours)

Parties: (i) the Transferors;
(ii) the Liu Family; and
(iii) Zhuhai Huafa Industrial.

Subject matter

Pursuant to the Concert Party Agreement:

- (1) following Completion and for the duration of the Term, the Transferors and the Liu Family shall take concerted action with and shall act in accordance with the will of Zhuhai Huafa Industrial in relation to any Shares that the Transferors and/or the Liu Family hold directly or indirectly (and in relation to any Shares that the Transferors and/or the Liu Family hold indirectly, the Transferors and the Liu Family shall procure the direct holder of such Shares to act in accordance with the will of Zhuhai Huafa Industrial) as follows:
 - (a) exercising the voting rights in meetings of the Board and general meetings of Shareholders;
 - (b) exercising the right of proposing resolutions to the Board and in general meetings of Shareholders;
 - (c) exercising the right to nominate candidates for Directors and Supervisors of the Company;
 - (d) exercising the power to convene extraordinary general meetings of the Company;
 - (e) ensuring that the Directors nominated by them shall act in accordance with the will of Zhuhai Huafa Industrial when exercising their voting rights in Board meetings of the Company; and
 - (f) any other major matters related to the Company's operation and management;
- (2) following Completion and for the duration of the Term, the Transferors and the Liu Family irrevocably entrust to Zhuhai Huafa Industrial the right to exercise all direct and indirect shareholder rights in relation to the Entrusted Shares, including voting rights at general meetings of Shareholders, voting rights in Board meetings, the right to propose resolutions in general meetings of Shareholders and meetings of the Board, the right to nominate Directors, Supervisors and senior management of the Company and the right to convene

LETTER FROM THE BOARD

extraordinary general meetings or general meetings of the Company and meetings of Directors, except that the Transferors and the Liu Family shall retain the right, as the holders or ultimate beneficial owners of the Entrusted Shares, to dividends on the Entrusted Shares and the right to dispose the Entrusted Shares in accordance with applicable laws and regulations and the articles of association of the Company (provided that such disposal does not violate the terms of any agreement entered into by the parties);

- (3) in the event that total number of Shares has changed due to reasons including but not limited to bonus issue or share split, the number of Entrusted Shares shall be adjusted accordingly in a pro rata manner to ensure the percentage of the Entrusted Shares out of the total number of Shares as at the date of the Concert Party Agreement remains reasonably unchanged;
- (4) during the Term, neither the Transferors nor the Liu Family may cease to act in concert with Zhuhai Huafa Industrial or terminate the Concert Party Agreement;
- (5) in the event any of the Transferors and the Liu Family (or persons nominated or designated by them) proposes to resign from his or her position as a director, supervisor or senior management of the Company, such resignation must be on the condition that it shall not materially affect the Company's operations and be approved by the Board or the board of supervisors (as applicable) of the Company;
- (6) unless with the written consent of Zhuhai Huafa Industrial, from the date of the Concert Party Agreement until the expiry of the Term, the Transferors and the Liu Family shall not (and shall procure their concert parties not to) sell, purchase, transfer by way of gift, grant options over, Encumber, grant third party rights over or engage in any "dealing" (as defined in Appendix 10 of the Listing Rules) in the Shares, or enter into any contract to carry out any of the foregoing;
- (7) notwithstanding the above, during the Term, in the event that Zhuhai Huafa Industrial and/or parties acting in concert with it (excluding the Transferors and the Liu Family) hold more than 50% of the issued share capital of the Company (excluding the Entrusted Shares), each of the Transferors and the Liu Family may sell the Entrusted Shares (a "**Disposal**") or pledge the Entrusted Shares to a bank or financial institution authorised under applicable laws of Hong Kong or the PRC to secure a bona fide loan or an extension of credit extended by such bank or financial institution (a "**Pledge**"), provided that in the case of a Disposal, Zhuhai Huafa Industrial shall enjoy a right of first refusal over such Disposal on the same terms and conditions agreed to by such seller with the counterparty. No such Disposal or Pledge shall (i) affect the obligations of each of the Transferors and the Liu Family to act in concert with Zhuhai Huafa Industrial under the Concert Party Agreement in relation to all Shares which remain to be held by them or (ii) result in the triggering of any obligation by any party to the Concert Party Agreement to make a general offer for the Shares under the Takeovers Code;

LETTER FROM THE BOARD

- (8) the Transferors and the Liu Family shall be liable to compensate Zhuhai Huafa Industrial for any breaches of the obligations and undertakings of the Transferors and the Liu Family in relation to the acting in concert undertakings or dealing restrictions under the Concert Party Agreement for liquidated damages of RMB120,000,000, provided that Zhuhai Huafa Industrial shall nevertheless be entitled to claim for any amount exceeding RMB120,000,000 if the losses suffered by Zhuhai Huafa Industrial in respect of any breach by the Transferors and the Liu Family under the Concert Party Agreement exceeds such sum; and
- (9) the Transferors and the Liu Family shall jointly and severally indemnify Zhuhai Huafa Industrial and Hong Kong Huafa for any losses, costs and expenses incurred by them as a result of the Transferors, the Liu Family and/or parties acting in concert with any of them (excluding Zhuhai Huafa Industrial and parties acting in concert with it) acquiring voting rights, whether during or after the Term, which results in the triggering of any obligation on the part of Zhuhai Huafa Industrial, the Transferors and the Liu Family and/or parties acting in concert with any of them to make a general offer for the Shares under the Takeovers Code.

Term of the Concert Party Agreement

Provided that there is no breach of any applicable law, the Concert Party Agreement shall be valid for the period (the “**Term**”) from the date of Completion until the point at which any of the following events occurs, whichever is the earliest:

- (1) the date which is three years after the date of Completion;
- (2) subject to the compliance by each of the Transferors and the Liu Family to the terms of the Concert Party Agreement, (i) each of the Transferors and the Liu Family ceasing to hold any Shares and (ii) each member of the Liu Family ceasing to hold any position as a Director, supervisor or senior management of the Company; and
- (3) Zhuhai Huafa Industrial providing a written notification to the other parties of the Concert Party Agreement to terminate the Concert Party Agreement.

Upon the expiry of the Term, the parties may determine to extend the Term for one additional year. The Term should, however, be no longer than four years in any event.

LETTER FROM THE BOARD

THE LOAN AGREEMENT

The Company entered into the Loan Agreement with the Transferors and Zhuhai Huafa Industrial on 29 January 2021 (after trading hours). A summary of the major terms of the Loan Agreement is set out below.

Date: 29 January 2021 (after trading hours)

Parties: (i) the Company;
(ii) Di Er Tong;
(iii) Digital Science & Technology; and
(iv) Zhuhai Huafa Industrial.

Subject matter

Pursuant to the Loan Agreement, the Transferors have agreed to provide the Company with a loan (the “**Loan**”), which is interest-free, being the consideration for the Sale Shares payable to the Transferors under the Share Purchase Agreement (less the relevant taxes payable by the Transferors) in the amount of RMB291,508,500.85. In that regard, an interest-free loan of RMB22,842,905.24 is payable by Digital Science & Technology to the Company, and an interest-free loan of RMB268,665,595.61 shall be payable by Di Er Tong to the Company. Pursuant to the terms of the Loan Agreement, Zhuhai Huafa Industrial has paid the consideration for the Sale Shares (after deducting the relevant tax payable by the Transferors) in the amount of RMB291,508,500.85 into the Escrow Account, upon which the payment obligations of Digital Science & Technology and Di Er Tong to the Company under the Loan Agreement were deemed fulfilled. No security or guarantee has been granted or is expected to be granted by the Group in favour of any of the Transferors and/or the Liu Family in connection with the Loan, and the Loan does not confer any special benefit on any of the Transferors and/or the Liu Family.

Maturity/Early Repayment

The initial term of the Loan shall be one year, and each of the Company and Zhuhai Huafa Industrial shall have the right to unilaterally extend the term of the Loan to up to three years, provided that upon the consent of the Company and Zhuhai Huafa Industrial, 20% of the Loan amount may be repaid to the Transferors prior to the maturity date of the Loan.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

Pursuant to Rule 2.1 of the Takeovers Code, the Company has established the Independent Board Committee comprising all of the non-executive Directors, namely Mr. Li Wenzhi, Mr. Yao Yanzhong and Mr. Lv Jing and all of the independent non-executive Directors, namely Mr. Lv Tingjie, Mr. Lv Pingbo, and Mr. Zhang Senquan, to advise the Independent Shareholders in relation to the terms and conditions of the Offers, in particular as to whether the Offers are, or are not, fair and reasonable and as to the acceptance of the Offers pursuant to Rule 2.1 of the Takeovers Code.

LETTER FROM THE BOARD

Pursuant to Rule 2.1 of the Takeovers Code, Innovax has been appointed as the Independent Financial Adviser by the Company after approval by the Independent Board Committee to advise the Independent Board Committee in respect of the Offers and in particular as to whether the Offers are, or are not, fair and reasonable so far as the Independent Shareholder are concerned and as to the acceptance of the Offers.

The purpose of this Composite Document is to provide you with, amongst others, information relating to the Group, the Offeror Group and the Offers as well as setting out the letter from the Independent Board Committee containing its recommendation to the Independent Shareholders in respect of the terms of the Offers and as to acceptance and the letter from the Independent Financial Adviser containing their advice to the Independent Board Committee in respect of the terms of the Offers and as to acceptance.

THE OFFERS

As mentioned in the “Letter from Guotai Junan Capital” on pages 13 to 25 of this Composite Document and the “Letter from Zhuhai Huafa Industrial” on pages 26 to 28 of this Composite Document, Zhuhai Huafa Industrial is making the Domestic Share Offer, and Guotai Junan Securities, on behalf of Hong Kong Huafa, is making the H Share Offer, in accordance with the Takeovers Code on the following basis:

For each Domestic Share RMB3.2030 in cash

For each H Share HK\$3.8429 in cash

The H Share Offer Price of HK\$3.8429 per H Share is equivalent to RMB3.2030, being the Domestic Share Offer Price and converted into Hong Kong dollars at the exchange rate of RMB0.8335 to HK\$1.00, being the exchange rate of RMB against HK\$ as announced by the People’s Bank of China on 1 February 2021, being the date of the Joint Announcement.

The Offers are only conditional upon valid acceptances of the Offers being received (and not, where permitted, withdrawn) by 4:00 p.m. on the date of closing of the Offers announced in this Composite Document (or such later time or date as the Offeror Group may, subject to the Takeovers Code, decide) in respect of Shares which, together with Shares acquired before or during the Offers, will result in the Offeror Group and parties acting in concert (including the Transferors and the Liu Family) with it holding more than 50% of the voting rights of the Company. If the foregoing condition cannot be fulfilled by the date of closing of the Offers, the Offers will not become unconditional and will lapse.

Further details of the Offers, including terms and procedures for acceptance of the Offers, are contained in the “Letter from Guotai Junan Capital” and the “Letter from Zhuhai Huafa Industrial” as set out on pages 13 to 25 and pages 26 to 28, respectively, Appendix I to this Composite Document and the accompanying Forms of Acceptance.

LETTER FROM THE BOARD

SHAREHOLDING STRUCTURE OF THE COMPANY

The following table sets out the shareholding structure of the Company (i) immediately prior to Completion; and (ii) immediately after Completion and as at the Latest Practicable Date.

Name of Shareholder	Immediately prior to Completion		Immediately after Completion and as at the Latest Practicable Date	
	Number of Shares	Approximate % of total issued share capital	Number of Shares	Approximate % of total issued share capital
Domestic Shares				
The Transferors				
– Di Er Tong	101,300,000 ⁽¹⁾	13.83%	–	–
– Digital Science & Technology	176,931,158 ⁽¹⁾	24.16%	168,362,098 ⁽²⁾⁽³⁾	22.99% ⁽²⁾⁽³⁾
The Offeror Group				
– Zhuhai Huafa Industrial	–	–	109,869,060	15%
– Hong Kong Huafa	–	–	–	–
Sub-total of the Offeror Group and parties acting in concert with any of them	278,231,158	37.99%	278,231,158	37.99%
Other Domestic Shareholders ⁽⁴⁾	59,468,842	8.12%	59,468,842	8.12%
H Shares				
Digital China (HK) Limited ⁽⁵⁾	158,350,000	21.62%	158,350,000	21.62%
Dawn Galaxy International Limited ⁽⁶⁾	42,000,000	5.73%	42,000,000	5.73%
Nelson Innovation Limited ⁽⁷⁾	65,793,400	8.98%	65,793,400	8.98%
Other public H Shareholders	128,617,000	17.56%	128,617,000	17.56%
Total:	<u>732,460,400</u>	<u>100%</u>	<u>732,460,400</u>	<u>100%</u>

LETTER FROM THE BOARD

Notes:

- (1) Immediately prior to Completion, Di Er Tong and Digital Science & Technology directly held 101,300,000 Domestic Shares and 176,931,158 Domestic Shares of the Company respectively. Mr. Liu Donghai, Ms. Liu Hua, Mr. Liu Songshan, Ms. Liu Wencui, Ms. Liu Yongmei and Ms. Liu Wenli respectively hold 22.12%, 4.74%, 45.90%, 8.78%, 4.74% and 12.72% interests in Di Er Tong, and Mr. Liu Donghai, Ms. Liu Hua, Ms. Liu Wencui, Ms. Liu Yongmei and Ms. Liu Wenli respectively hold 84.72%, 5.06%, 3.93%, 5.06% and 1.23% interests in Digital Science & Technology. Accordingly, pursuant to the SFO, Mr. Liu Donghai, Ms. Liu Wencui, Ms. Liu Yongmei, Ms. Liu Hua and Ms. Liu Wenli are deemed to be interested in 101,300,000 Domestic Shares and 176,931,158 Domestic Shares held by Di Er Tong and Digital Science & Technology respectively, while Mr. Liu Songshan is deemed to be interested in 101,300,000 Domestic Shares held by Di Er Tong.
- (2) Pursuant to the Concert Party Agreement, Zhuhai Huafa Industrial obtained control over 168,362,098 Domestic Shares held by the Transferors.
- (3) Immediately after Completion and as at the Latest Practicable Date, Digital Science & Technology directly held 168,362,098 Domestic Shares of the Company, and Mr. Liu Donghai, Ms. Liu Hua, Ms. Liu Wencui, Ms. Liu Yongmei and Ms. Liu Wenli respectively hold 84.72%, 5.06%, 3.93%, 5.06% and 1.23% interests in Digital Science & Technology. Accordingly, pursuant to the SFO, Mr. Liu Donghai, Ms. Liu Wencui, Ms. Liu Yongmei, Ms. Liu Hua and Ms. Liu Wenli are deemed to be interested in 168,362,098 Domestic Shares held by Digital Science & Technology.
- (4) As at the Latest Practicable Date and to the best of the Company's knowledge, the other Domestic Shareholders include Beijing Rong Feng Tai Management and Consulting Company Limited (北京融豐泰管理諮詢有限公司) as to 7,500,000 Domestic Shares, Chengmai Dixin Changqing Investment Centre (Limited Partnership) (澄邁迪信長青投資中心(有限合夥)) as to 17,500,000 Domestic Shares, Zhuhai Gengyan Investment Centre (Limited Partnership) (珠海庚言投資中心(有限合夥)) ("**Zhuhai Gengyan**") as to 24,868,842 Domestic Shares and Hainan Xinli No. 1 Technology Partnership (Limited Partnership) (海南新曆壹號科技合夥企業(有限合夥)) ("**Hainan Xinli**") as to 9,600,000 Domestic Shares.
- (5) As at the Latest Practicable Date and to the best of the Company's knowledge, Digital China (HK) Limited ("**Digital China**") directly held 158,350,000 H Shares, and Digital China Group Co., Ltd. ("**Digital China Group**", a company listed on the Shenzhen Stock Exchange (SZ: 000034)) holds 100% interests in Digital China through its wholly-owned subsidiary Digital China (China) Limited ("**Digital China (China)**"). Accordingly, pursuant to the SFO, Digital China Group and Digital China (China) are deemed to be interested in 158,350,000 H Shares held by Digital China.
- (6) As at the Latest Practicable Date and to the best of the Company's knowledge, Dawn Galaxy International Limited is ultimately held by Mr. Cai Yuanchun, Ms. Zhong Jiping, Mr. Chen Ping and Mr. Sun Shaojian.
- (7) As at the Latest Practicable Date and to the best of the Company's knowledge, Nelson Innovation Limited directly held 65,793,400 H Shares of the Company, and Liu Qiangdong holds 72.90% interests in JD.com, Inc. through his wholly-owned subsidiary Max Smart Limited, and JD.com, Inc. holds 100% interests in Nelson Innovation Limited through its wholly-owned subsidiary JD.com Investment Limited. Accordingly, pursuant to the SFO, Liu Qiangdong, Max Smart Limited, JD.com, Inc. and JD.com Investment Limited are deemed to be interested in 65,793,400 H Shares held by Nelson Innovation Limited.

LETTER FROM THE BOARD

INFORMATION ON THE GROUP

The Company is a joint stock limited company established in the PRC, the H Shares of which are listed on the Stock Exchange. The Group focuses on the sales of mobile telecommunication devices and the provision of related services. With its extensive offline sales channels and online sales platform, the Group provides comprehensive services to consumers, ranging from sales of mobile phone hardware and accessories, provision of value-added services for software, and provision of personalized services for mobile phones and aftersales services.

Your attention is drawn to Appendices II and III of this Composite Document which contain further financial and general information of the Group.

INTENTION OF THE OFFEROR GROUP IN RELATION TO THE COMPANY

Your attention is drawn to the sections headed “Information on the Offeror Group and its Concert Group” and “Reasons for the Offers and the Intention of the Offeror Group in relation to the Group” in the “Letter from Guotai Junan Capital” contained in this Composite Document.

The Board is aware of the intention of the Offeror Group in respect of the Company and is willing to render reasonable cooperation with the Offeror Group and to act in the interest of the Company and the Shareholders as a whole. The Board is aware that the Offeror Group intends to continue developing the Company’s existing principal business without major redeployment of the Company’s fixed assets and to continue with the employment of the Group’s employees following the close of the Offers.

PUBLIC FLOAT AND MAINTAINING THE LISTING STATUS OF THE COMPANY

The Board noted from the section headed “Public float and maintaining the listing status of the Company” in the “Letter from Guotai Junan Capital” contained in this Composite Document that the Offeror Group intends to maintain the listing of the H Shares on the Stock Exchange after the closing of the Offers. The Board further noted: (i) that the directors of the Offeror Group and the new directors to be appointed to the Board will jointly and severally undertake to the Stock Exchange to take appropriate steps to ensure that sufficient public float exists in the Shares and; (ii) the steps that the Offeror Group may take include selling the Shares they acquire from the Offers to selected independent third parties or in the market. Announcement(s) will be made in this regard as and when appropriate in compliance with the Listing Rules.

LETTER FROM THE BOARD

RECOMMENDATION

Your attention is drawn to (i) the “Letter from the Independent Board Committee” on pages 42 to 43 of this Composite Document, which sets out its advice and recommendations to the Independent Shareholders as to whether the terms of the Offers are, or are not, fair and reasonable so far as the Independent Shareholders are concerned, and as to acceptance thereof; and (ii) the “Letter from Innovax” on pages 44 to 72 of this Composite Document, which sets out its advice and recommendation to the Independent Board Committee as to whether the terms of the Offers are, or are not, fair and reasonable so far as the Independent Shareholders are concerned, and as to acceptance thereof, and the principal factors considered by it before arriving at its advice and recommendation.

ADDITIONAL INFORMATION

You are advised to read this Composite Document together with the accompanying Forms of Acceptance in respect of the acceptance and settlement procedures of the Offers. Your attention is drawn to the additional information contained in the Appendices to this Composite Document.

In considering what action to take in connection with the Offers, you should also consider your own tax positions, if any, and in case of doubt, consult your professional advisers.

Yours faithfully,
By order of the Board of
Beijing Digital Telecom Co., Ltd.
Liu Donghai
Chairman and Executive Director

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the text of the letter of recommendation from the Independent Board Committee to the Independent Shareholders in relation to the Offers for inclusion in this Composite Document.



北京迪信通商貿股份有限公司 Beijing Digital Telecom Co., Ltd.

(a joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock Code: 6188)

30 April 2021

To the Independent Shareholders

Dear Sirs,

- (1) THE MANDATORY CONDITIONAL CASH OFFER BY ZHUHAI HUAFA INDUSTRIAL INVESTMENT HOLDING CO., LTD.* FOR ALL THE ISSUED DOMESTIC SHARES OF BEIJING DIGITAL TELECOM CO., LTD. (OTHER THAN THOSE ALREADY OWNED OR AGREED TO BE ACQUIRED BY ZHUHAI HUAFA INDUSTRIAL INVESTMENT HOLDING CO., LTD* AND PARTIES ACTING IN CONCERT WITH IT); AND
- (2) THE MANDATORY CONDITIONAL CASH OFFER BY GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED ON BEHALF OF HONG KONG HUAFA INVESTMENT HOLDINGS LIMITED TO ACQUIRE ALL THE ISSUED H SHARES OF BEIJING DIGITAL TELECOM CO., LTD.

INTRODUCTION

We refer to the composite offer and response document (the “**Composite Document**”) dated 30 April 2021 issued jointly by the Offeror Group and the Company, of which this letter forms part. Capitalised terms used in this letter have the same meanings as defined elsewhere in the Composite Document unless the context requires otherwise.

We have been appointed by the Board to form the Independent Board Committee to consider the terms of the Offers and to make recommendations to you as to whether, in our opinion, the terms of the Offers are, or are not, fair and reasonable so far as the Independent Shareholders are concerned, and as to acceptances thereof.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Innovax has been appointed as the Independent Financial Adviser to advise us in respect of the terms of the Offers and as to acceptance thereof. Details of its advice and the principal factors and reasons taken into account by it in arriving at its advice and recommendations are set out in the “Letter from Innovax” on pages 44 to 72 of the Composite Document.

We also wish to draw your attention to the “Letter from the Board”, the “Letter from Guotai Junan Capital”, “Letter from Zhuhai Huafa Industrial” and the additional information set out in the Appendices to the Composite Document.

RECOMMENDATIONS

Having considered the terms of the Offers and the letter of advice and recommendations from Innovax, we consider that the terms of the Offers are fair and reasonable so far as the Independent Shareholders are concerned, and therefore we recommend the Independent Shareholders to accept the Offers. The Independent Shareholders are recommended to read the full text of the “Letter from Innovax” set out in the Composite Document.

Notwithstanding our recommendation, the Independent Shareholders should consider carefully the terms of the Offers. In any case, the Independent Shareholders are strongly advised that the decision to realise or to hold their investment is subject to individual circumstances and investment objectives. If in doubt, the Independent Shareholders should consult their own professional advisers for professional advice.

Yours faithfully,
For and on behalf of the
Independent Board Committee of
Beijing Digital Telecom Co., Ltd.

Mr. Li Wenzhi
Non-executive Director
Mr. Lv Jing
Non-executive Director
Mr. Lv Pingbo
Independent non-executive Director

Mr. Yao Yanzhong
Non-executive Director
Mr. Lv Tingjie
Independent non-executive Director
Mr. Zhang Senquan
Independent non-executive Director

LETTER FROM INNOVAX

Set out below is a letter of advice from the Independent Financial Adviser, Innovax Capital Limited, to the Independent Board Committee, which has been prepared for the purpose of inclusion in this Composite Document.



Innovax Capital Limited
Room 2002, 20/F,
Chinachem Century Tower,
178 Gloucester Road,
Wan Chai, Hong Kong

30 April 2021

To: Independent Board Committee

Dear Sirs,

(1) THE MANDATORY CONDITIONAL CASH OFFER BY ZHUHAI HUAFA INDUSTRIAL INVESTMENT HOLDING CO., LTD.* FOR ALL THE ISSUED DOMESTIC SHARES OF BEIJING DIGITAL TELECOM CO., LTD. (OTHER THAN THOSE ALREADY OWNED OR AGREED TO BE ACQUIRED BY ZHUHAI HUAFA INDUSTRIAL INVESTMENT HOLDING CO., LTD.* AND PARTIES ACTING IN CONCERT WITH IT); AND

(2) THE MANDATORY CONDITIONAL CASH OFFER BY GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED ON BEHALF OF HONG KONG HUAFA INVESTMENT HOLDINGS LIMITED TO ACQUIRE ALL THE ISSUED H SHARES OF BEIJING DIGITAL TELECOM CO., LTD.

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee in respect of the Offers, details of which are set out in the Composite Document dated 30 April 2021 jointly issued by the Company and the Offeror Group, of which this letter forms part. Terms used herein shall have the same meanings as defined in the Composite Document unless the context otherwise requires.

On 29 January 2021 (after trading hours), the Transferors, together with the Liu Family, entered into the Share Purchase Agreement with Zhuhai Huafa Industrial, pursuant to which the Transferors have sold, and Zhuhai Huafa Industrial has purchased the Sales Shares, being 109,869,060 Domestic Shares, at Completion for a total consideration of RMB351,900,000 (equivalent to approximately HK\$422,195,561), or RMB3.2030 per Sale Share (equivalent to approximately HK\$3.8429), which was determined among Zhuhai Huafa Industrial and the Transferors after arm's length negotiations, taking into account (i) the trading price and the trading volume of the H Shares of the Company, (ii) the unaudited consolidated net asset value of the Group as at 30 June 2020, (iii) the liquidity of the Domestic Shares and (iv) the future prospects of the Company.

LETTER FROM INNOVAX

On 29 January 2021 (after trading hours), the Transferors entered into the Concert Party Agreement with the Liu Family and Zhuhai Huafa Industrial, pursuant to which, among others, following Completion and for the duration of the Term, the Transferors and the Liu Family shall take concerted action with and shall act in accordance with the will of Zhuhai Huafa Industrial in relation to any Shares that the Transferors and/or the Liu Family hold directly or indirectly and the Transferors and the Liu Family will irrevocably entrust to Zhuhai Huafa Industrial the right to exercise all direct and indirect shareholder rights in relation to the Entrusted Shares, being the 168,362,098 Domestic Shares.

On 7 April 2021, Completion under the Share Purchase Agreement took place, upon which Zhuhai Huafa Industrial acquired 109,869,060 Domestic Shares, representing approximately 15% of the entire issued share capital of the Company as at the Latest Practicable Date. In addition, pursuant to and subject to the terms of the Concert Party Agreement, Zhuhai Huafa Industrial obtained control over 168,362,098 Domestic Shares held by the Transferors upon Completion, representing approximately 22.99% of the entire issued share capital of the Company as at the Latest Practicable Date. In aggregate, upon Completion, Zhuhai Huafa Industrial has acquired or controlled approximately 37.99% of the voting rights of the Company as at the Latest Practicable Date. Pursuant to Rule 26.1 of the Takeovers Code, Zhuhai Huafa Industrial is required to make a mandatory conditional general offer in cash for all the outstanding Domestic Shares and H Shares other than those already owned or agreed to be acquired by Zhuhai Huafa Industrial or parties acting in concert with it. In compliance with the Takeovers Code, Zhuhai Huafa Industrial is making the Domestic Share Offer and Guotai Junan Securities, on behalf of Hong Kong Huafa, is making the H Share Offer.

The Company has established the Independent Board Committee comprising all of the non-executive Directors, namely Mr. Li Wenzhi, Mr. Yao Yanzhong and Mr. Lv Jing, and all of the independent non-executive Directors, namely Mr. Lv Tingjie, Mr. Lv Pingbo, and Mr. Zhang Senquan, who have no direct or indirect interest in the Offers, to advise the Independent Shareholders in relation to the terms and conditions of the Offers, in particular as to whether the Offers are, or are not, fair and reasonable and as to the acceptance of the Offers pursuant to Rule 2.1 of the Takeovers Code. We, Innovax Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee in respect of the Offers and in particular as to whether the Offers are, or are not, fair and reasonable so far as the Independent Shareholders are concerned and as to the acceptance of the Offers.

INDEPENDENCE

As at the Latest Practicable Date, we are not associated or connected with the Group or the Offeror Group, their respective substantial or controlling shareholders or any party acting, or presumed to be acting, in concert with any of them. During the past two years immediately preceding and up to the date of our appointment as the Independent Financial Adviser, save for this appointment as the Independent Financial Adviser in respect of the Offers, there were no other engagements between Innovax and the Group or the Offeror Group or the parties acting in concert with it and us. Apart from normal professional fees paid or payable to us in connection with this appointment as the Independent Financial Adviser, no arrangement exists whereby we will receive any fees or

LETTER FROM INNOVAX

benefits from the Group or the Offeror Group, their respective substantial or controlling shareholders or any party acting, or presumed to be acting, in concert with any of them. Accordingly, we are considered eligible to give independent advice in respect of the Offers.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee, we have reviewed, amongst others, the Joint Announcement, the Completion Announcement, the annual reports for the years ended 31 December 2018 and 2019 and the annual result announcement of the Company for the years ended 31 December 2020 (the “**2018 Annual Report**”, the “**2019 Annual Report**”, the “**2020 Annual Result Announcement**”, respectively). We have also discussed with and reviewed the information provided by the management of the Group (the “**Management**”) regarding the business and outlook of the Group.

We have relied on the statements, information, opinions and representations contained or referred to in the Composite Document and the information and representations as provided to us by the Directors and the Offeror Group (where applicable). We have assumed that all information and representations that have been provided by the Directors and the Offeror Group (where applicable), for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date, and should there be any material changes to our opinion after the Latest Practicable Date, Shareholders would be notified as soon as possible in accordance with Rule 9.1 of the Takeovers Code. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors and the Offeror Group (where applicable) in the Composite Document were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Composite Document, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors and the Offeror Group (where applicable), which have been provided to us. Our opinion is based on the Directors’ and the Offeror Group’s representation and confirmation that there are no undisclosed private agreements/arrangements or implied understanding with anyone concerning the Offers. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules and Rule 2 of the Takeovers Code.

Your attention is drawn to the responsibility statements as set out in the sections headed “RESPONSIBILITY STATEMENT” of Appendix III to the Composite Document. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Composite Document, save and except for this letter of advice.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, the Offeror, or their respective subsidiaries or associates (if applicable), nor

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have we considered the taxation implication on the Group or the Shareholders resulting from his or her acceptance or non-acceptance of the Offers. In particular, the Independent Shareholders who are resident overseas or subject to overseas taxation or Hong Kong taxation on securities dealing should consider that their own tax position and, if in any doubt, should consult their own professional advisers.

We have assumed that the Offers will be consummated in accordance with the terms and conditions set forth in the Composite Document without any waiver, amendment, addition or delay of any terms or conditions. In addition, our opinion is necessarily based on the financial, market, economic, industry-specific and other conditions as they existed on, and the information made available to us as at the Latest Practicable Date.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, it is the responsibility of Innovax to ensure that such information has been correctly and fairly extracted, reproduced or presented from the relevant sources while we are not obligated to conduct any independent in-depth investigation into the accuracy and completeness of those information.

PRINCIPAL TERMS OF THE OFFERS

In compliance with the Takeovers Code, Zhuhai Huafa Industrial is making the Domestic Share Offer and Guotai Junan Securities, on behalf of Hong Kong Huafa, is hereby making the H Share Offer for all the outstanding Domestic Shares and H Shares respectively, other than those already owned or agreed to be acquired by Zhuhai Huafa Industrial or parties acting in concert with it, on the following basis:

For each Domestic Share RMB3.2030 in cash

For each H Share HK\$3.8429 in cash

The Domestic Share Offer Price of RMB3.2030 per Domestic Share is the same as the purchase price per Sale Share under the Share Purchase Agreement which was arrived at after arm's length negotiations between Zhuhai Huafa Industrial and the Transferors.

The H Share Offer Price of HK\$3.8429 per H Share is equivalent to RMB3.2030, being the Domestic Share Offer Price and converted into Hong Kong dollars at the exchange rate of RMB0.8335 to HK\$1.00, being the exchange rate of RMB against HK\$ as announced by the People's Bank of China on 1 February 2021, being the date of the Joint Announcement.

As at the Latest Practicable Date, there were 337,700,000 Domestic Shares and 394,760,400 H Shares in issue. On the basis that the Domestic Share Offer Price is RMB3.2030 per Domestic Share and the H Share Offer Price is HK\$3.8429 per H Share, the entire issued share capital of the Company is valued at approximately HK\$2,814,772,071.

Condition of the Offers

The Offers are only conditional upon valid acceptances of the Offers being received (and not, where permitted, withdrawn) which, together with Shares acquired before or during the Offers, will result in the Offeror Group and parties acting in concert (including the Transferors and the Liu Family) with it holding more than 50% of the voting rights of the Company. If the foregoing condition cannot be fulfilled by the date of closing of the Offers, the Offers will not become unconditional and will lapse.

The Shareholders should be aware that the Offers are subject to the satisfaction of the foregoing condition of the Offers. Accordingly, the Offers may or may not become unconditional. The Shareholders should therefore exercise extreme caution when dealing in securities of the Company and if they are in any doubt about their position, they should consult their professional advisers.

PRINCIPAL FACTORS AND REASONS CONSIDERED

1 Background information of the Company

1.1 Principal activities

The Company is a joint stock limited company established in the PRC, the H Shares of which are listed on the Stock Exchange. The Group focuses on the sales of mobile telecommunication devices and the provision of related services. With its extensive offline sales channels and online sales platform, the Group provides comprehensive services to consumers, ranging from sales of mobile phone hardware and accessories, provision of value-added services for software, and provision of personalized services for mobile phones and aftersales services.

For the years ended 31 December 2018, 2019 and 2020, revenue generated from the sales of mobile telecommunications devices and accessories in the PRC accounted for more than 95% of the Group's revenue. The Group generated more than 85% of its revenue through its offline sales channels during the three years ended 31 December 2020. As at 31 December 2018, 2019 and 2020, the Group had approximately 1,600, 1,500 and 1,100 offline outlets (including self-owned stores, store-in-store outlets and franchised outlets across the PRC).

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1.2 Historical Financial information of the Group

Set out below is a summary of the consolidated financial information of the Group for the years ended 31 December 2018, 2019 and 2020 as extracted from the 2018 Annual Report, the 2019 Annual Report and the 2020 Annual Result Announcement.

	For the year ended 31 December		
	2018	2019	2020
	("FY2018")	("FY2019")	("FY2020")
	RMB'000 (audited)	RMB'000 (audited)	RMB'000 (audited)
Revenue from continuing operations	14,957,133	15,350,953	13,550,150
– Sales of mobile telecommunications devices and accessories	14,451,208	14,877,308	13,246,324
– Others	505,925	473,645	303,826
Gross profit from continuing operations	1,914,750	1,768,877	1,176,691
Profit for the year	322,101	260,452	114,512
	As at 31 December		
	2018	2019	2020
	RMB'000	RMB'000	RMB'000
	(audited)	(audited)	(audited)
Non-current assets	421,386	1,167,898	833,442
Current assets	7,658,717	9,773,359	8,511,574
Current (liabilities)	(4,246,398)	(6,440,324)	(4,689,071)
Net current assets	3,412,319	3,333,035	3,822,503
Non-current (liabilities)	–	(324,428)	(208,439)
Equity attributable to owners of the Company	3,760,330	4,014,258	(4,285,060)
Current ratio ⁽¹⁾	1.8	1.5	1.8
Gearing ratio ⁽²⁾	38.1%	39.5%	37.5%
Net debt-to-equity ratio ⁽³⁾	61.5%	65.3%	60.0%

Notes:

- Current ratio is calculated by dividing current assets by current liabilities as at the end of each financial period.
- Gearing ratio is calculated by dividing net debt by the sum of net debt and total equity as at the end of each financial period and multiplied by 100%. Net debt includes interest-bearing bank loans plus bonds payable, less cash and cash equivalents.
- Net debt-to-equity ratio is calculated by dividing net debt by total equity as at the end of the financial period and multiplied by 100%.

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	For the year ended 31 December		
	2018	2019	2020
	RMB'000	RMB'000	RMB'000
	(audited)	(audited)	(audited)
Net cash generated from operating activities	266,249	537,068	315,029
Net cash (used in)/ generated from investing activities	350,890	(367,347)	78,098
Net cash (used in) financing activities	(524,234)	(212,223)	(988,621)
Net (decrease)/increase in cash and cash equivalents	92,905	(42,502)	(595,494)
Cash and cash equivalents at end of the year	708,548	666,245	71,413

(i) *FY2019 compared to FY2018*

In FY2019, the Group recorded slight increase in revenue from continuing operations by approximately 2.6%, which was primarily contributed by the sales of mobile telecommunications devices and accessories. Despite the slight decrease in sales volume of mobile handsets from 9.9 million sets in 2018 to 9.7 million sets in 2019, the increase was driven by an increase in average selling price from RMB1,394 per handset in 2018 to RMB1,487 per handset in 2019 as a result of (a) expansion in foreign markets, for example, revenue generated from Spain increased significantly by 535.0% from RMB50.7 million in FY2018 to RMB322.1 million in FY2019; and (b) the launch of new 5G mobile phones.

The Group's gross profit from continuing operations in FY2019, however, decreased by 7.6% and its gross profit margin also decreased from 12.8% in FY2018 to 11.5% in FY2019, which was primarily due to higher proportion of wholesale revenue and the lower proportion of retail revenue in FY2019 as a result of the reduction of offline outlets during FY2019.

The Group's net profit for the year in FY2019 decreased moderately by 19.1%, which was primarily due to (i) the decrease in gross profit; (ii) the decrease in interest income; (iii) increase in impairment losses on financial assets including loan receivables and trade receivables; (iv) increase in finance cost; and net-off by (v) the decrease in selling and distribution expenses.

The Group's net current assets decreased slightly by 2.3% as at 31 December 2019 as compared to 31 December 2018, which was mainly due to increase in trade and bills payables and interest-bearing bank and other borrowings as at 31 December 2019. The Group's current ratio as at 31 December 2019 decreased to 1.5 from 1.8 as at 31 December 2018.

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The Group's gearing ratio and net debt to equity ratio both increased as at 31 December 2019 due to the increase in short-term borrowings mainly to finance the acquisition of Beijing Penglu Network Technology Co., Ltd and Shenzhen Mizuan Network Technology Co., Ltd in FY2019 as part of the Group's strategy to expand its online sales of mobile telecommunications devices and accessories and to expand its business chain in the market of mobile telecommunications devices and accessories. Among the Group's interest-bearing bank and other borrowings, RMB576.7 million as at 31 December 2019 and RMB598.0 million as at 31 December 2018 were corporate bond issued in April 2017 at interest rate of 7.5% per annum with a maturity of three years expiring in April 2020.

In FY2018, the Group recorded net increase in cash and cash equivalents of RMB92.9 million where its cash generated from operating activities and investing activities were sufficient to cover the cash used in financing activities.

In FY2019, however, the Group recorded net decrease in cash and cash equivalents of RMB42.5 million because the Group's cash generated from operating activities were not sufficient to cover cash used in investing activities and financing activities. The Group used RMB200.1 million in the purchase of financial assets at fair value through profit or loss and invested another RMB217.0 million in the acquisition of interests in joint ventures. The Group paid interest expenses on its borrowings and increased in pledged deposits, resulting in a net cash used in financing activities.

(ii) FY2020 compared to FY2019

In FY2020, the Group's revenue decreased by 11.7%, which was primarily due to the decrease in the sales of telecommunications devices and accessories with number of mobile handsets sold decreased from 9.7 million sets in FY2019 to 8.0 million sets in FY2020 as a result of the decrease in the number of offline outlets amid the COVID-19 pandemic and the shift in shopping preferences by consumers to purchase online. Such negative impact from the decrease in sales volume was partially offset by the increase in average selling price from RMB1,487 per set in FY2019 to RMB1,622 per set in FY2020 and the significant 85.4% increase in revenue generated in Spain in FY2020.

Compared to the decrease in revenue, the Group's gross profit deteriorated to a larger extent in FY2020 by 33.5%, which was mainly due to the decrease in gross profit margin from 11.5% in FY2019 to 8.7% in FY2020 as a result of the decrease in the proportion of retail revenue when the Group's number of offline outlets decreased during the COVID-19 pandemic.

The Group's net profit for the year decreased further by 56.0% in FY2020 which was mainly due to the decrease in the Group's gross profit and other income and gains while the Group's expenses only decreased to a lesser extent, resulting in even lower net profit margin of 0.8% in FY2020, compared with 1.7% in FY2019.

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The Group's overall financial position improved slightly as at 31 December 2020 with equity attributable to owners of the parent increased by 6.7% as at 31 December 2020 mainly as a result of the improvement of net current assets by 14.7%, which was primarily attributable to the decrease in interest-bearing bank and other borrowings after maturity of corporate bonds in April 2020 and the repayment of bank loans in FY2020. The Group's current ratio therefore increased to 1.8 as at 31 December 2020 from 1.5 as at 31 December 2019. However, the positive impact of increase in net current assets as at 31 December 2020 was partially offset by the decrease in non-current assets by 28.6% as a result of the decrease in property, plant and equipment, right-of-use assets and goodwill when more offline outlets were closed down in FY2020 during the COVID-19 pandemic.

Upon the maturity of corporate bond and the repayment of some bank loans and the overall increase in equity, the Group's gearing ratio decreased from 39.5% in FY2019 to 37.5% in FY2020 and the Group's net debt to equity ratio also decreased from 65.3% in FY2019 to 60.0% in FY2020.

The Group's liquidity decreased in FY2020 when the Group recorded a net decrease in cash and cash equivalents by RMB595.5 million in FY2020 when its net cash generated from operating activities and investing activities were insufficient to cover the net cash used in financing activities, which were used for the repayment of corporate bond and bank loans during FY2020, resulting in cash and cash equivalent of merely RMB71.4 million as at 31 December 2020, compared with RMB666.2 million as at 31 December 2019.

(iii) Analysis

As demonstrated above, the Group's financial performance and liquidity have been deteriorating during the three years ended 31 December 2020 as the Group's offline outlets continued to decrease while its online sales failed to catch up. The COVID-19 pandemic was a catalyst in the shift of shopping preferences of consumers from offline to online and, thereby, the deterioration of financial performance for the Group, which resulted in an even faster rate of the closure of offline outlets. The number of offline outlets decreased by more than 25.1% in FY2020, compared with 9.2% in FY2019. As a result of the lock-down and social distancing measures during the COVID-19 pandemic, customers spent more time shopping online and thereby significantly benefiting online sales during the COVID-19 pandemic. The Group's online sales contributed to not more than 15.0% of its total revenue during the three years ended 31 December 2020.

1.3 Historical dividend payout

The Group does not have a fixed dividend policy and there has not been dividend and distribution declared by the Company over the past three years ended 31 December 2020 and up to the Latest Practicable Date. The Company confirms that as at the Latest Practicable Date, (i) it has not declared any dividend which remains unpaid, (ii) it does not intend to declare any dividend the record date of which will fall on or after the date of this Composite Document, and (iii) it does not intend to make, declare or pay any future dividend or make other contributions until the closing of the Offers. Under such challenging environment, we doubt if there will be any further dividends to be distributed by the Company in the foreseeable future, which makes the investment in the Shares less attractive, in particular, for those who are after dividend income from their investment.

1.4 Business prospect of the Group

Decreasing overall demand and supply for smartphones in China

According to the White Paper on China Smartphone 2020 (《2020中國人工智能手機白皮書》) released by iResearch in December 2020 (the “**iResearch Report**”), the smartphone penetration rate in China was already at a high level of approximately 95.6% in 2019. With the smartphone penetration rate approaching the saturation point, the growth of smartphone market slows down. Also, consumers are becoming more price sensitive and according to the iResearch Report, the average phone replacement cycle increased from approximately 23.8 months in 2014 to approximately 33.2 months in 2019. Customers are less willing to spend on new phones. According to the Report on Smartphone Consumption Trend & User Loyalty (《智慧手機消費趨勢&用戶忠誠度和流失度報告》) released by Penguin Intelligence (企鵝智庫) in December 2020, compared to 2019, the average purchase budget per capita on smartphones in China decreased in 2020. The average purchase budget per capita in first-tier cities dropped by 5.4% from RMB3,941 in 2019 to RMB3,728 in 2020; while the fourth and fifth-tier cities showed a decrease in average purchase budget per capita by more than 10% from RMB3,071 in 2019 to RMB2,745 in 2020.

On the supply side, according to the iResearch Report, costs of materials increase and gross profit margin decreases in the production of smartphones. The number of smartphones shipped in China has been decreasing continuously since 2017, from approximately 461 million units in 2017 to approximately 372 million units in 2019.

The development of the 5G mobile technology

As China considers the 5G mobile technology to be a significant strategic priority for the country and as the progress of 5G network construction in China accelerates, the demand for 5G mobile phones for replacement is expected to increase rapidly and is expected to have a positive impact on the smartphone market in the PRC. According to the Analysis Report on the Operation of the

Domestic Mobile Phone Market – February 2021 (《2021 年2 月國內手機市場運行分析報告》) released by China Academy of Information and Communications Technology (中國信通院) in March 2021, the domestic 5G mobile phone shipments were approximately 15.1 million units in February 2021, and represented approximately 69.3% of the total mobile phone shipments in the same period.

Shift of mobile device shopping habits from offline to online

According to the report on Global Online Handset Market Growth and Trends – July 2020 released by Counterpoint Research in July 2020, online retail channels is expected to reach 23% share of all smartphones sold worldwide in 2020, soaring from 20% in 2019. The share of smartphone sales through online channels to total smartphone sales in China had already reached 30% in the first quarter of 2020.

The COVID-19 pandemic has brought significant adverse impact and volatility to the offline retail industry. The quarantines and social distancing measures during the COVID-19 pandemic forced consumers to change their shopping habits and behavior. There has been major adverse impact on the distribution of smartphones offline, the operation of certain of the Group's retail stores were suspended for around one to two months during the peak of the COVID-19 pandemic. As such, more businesses in the smartphone market shift online. The Group, among other mobile retailers with a large number of physical offline stores is, therefore, adversely impacted by such change in shopping habits and behavior, and may have to restructure or close down some of their offline retail stores.

Severe competition in the mobile device online market

The online market of the sales of mobile phones has been very competitive.

First, majority of the mobile brands have launched their own online channels, including both self-operated websites and official flagship stores on third party platforms such as JD.com and TMall. Customers can purchase mobile telecommunication devices and accessories directly from the mobile brands' own online channels, as compared to the Group's online sales platforms. Second, other mobile phone retailers who focused on offline sales had also launched their online channels.

Despite the positive impact from the development of the 5G mobile technology, after taking into consideration of (i) decreasing demand and supply for smartphones in China; (ii) the adverse impact on the Group's offline retail business, which represented more than 85% of the Group's revenue during the three years ended 31 December 2020, brought about by the shift of mobile device shopping habits from offline to online which was facilitated by the COVID-19 pandemic; (iii) severe competition in the mobile device online market despite the Offeror Group's intention to expand the online business of the Group; and (iv) other uncertainties brought about by the COVID-19 pandemic, such as the reoccurrence of outbreak in localized areas, and the progress of mass vaccination, the Group's business outlook remains uncertain and challenging.

2 Information on the Offeror Group and its controlling shareholders, and its intention in relation to the Group

2.1 Background information of the Offeror Group

Zhuhai Huafa Industrial is a limited liability company established in the PRC, and is a direct wholly-owned subsidiary of Zhuhai Huafa, a state-owned enterprise wholly-owned by Zhuhai SASAC. Zhuhai Huafa Industrial is primarily engaged in equity investment and asset management.

Hong Kong Huafa is a limited liability company incorporated in Hong Kong, and is a direct wholly-owned subsidiary of Zhuhai Huafa, a state-owned enterprise wholly-owned by Zhuhai SASAC. Hong Kong Huafa is primarily engaged in investment holding.

Zhuhai Huafa is a large state-owned conglomerate in the PRC with its business operations primarily conducted in Zhuhai City, Guangdong Province, which is situated at the southern end of the Pearl River Delta Region. Zhuhai Huafa was established as a wholly state-owned enterprise in 1980 and is under the direct supervision of Zhuhai SASAC. Zhuhai Huafa and its subsidiaries initially focused on property development in Zhuhai, and has since expanded into other cities and diversified to include other businesses. Currently, Zhuhai Huafa and its subsidiaries are primarily engaged in six major businesses, namely, urban operations, financial services, property development, industrial investment, sales and trading and modern services. In addition, Zhuhai Huafa and its subsidiaries also engage in other businesses which are incidental to their six major businesses.

As at the Latest Practicable Date, the directors of Zhuhai Huafa Industrial are Ms. Guo Jin, Mr. Xie Hui, Mr. Xie Hao and Mr. Wang Zhe; the directors of Hong Kong Huafa are Mr. Li Guangning, Mr. Xie Wei, Mr. Guo Lingyong, Mr. Wu Jiang and Ms. Li Yanmei; the directors of Zhuhai Huafa are Mr. Li Guangning, Mr. Ye Yuhong, Mr. Xie Wei, Mr. Chen Yi, Ms. Zhou Youfen, Mr. Huang Jianbin and Mr. Li Weijie. The ultimate beneficial owner of Zhuhai Huafa Industrial and Hong Kong Huafa is Zhuhai Huafa.

2.2 The Offeror Group's intention in relation to the Group

As stated in the "Letter from Guotai Junan Capital", the management of the Offeror Group, when considering whether to carry out the Offers, has taken into account the Company's growth and potential; the prospects of the retail market of telecommunication devices; and maximizing synergy between the Offeror Group and the Company.

(i) Operational matters

As stated in the "Letter from Guotai Junan Capital" contained in the Composite Document, following the closing of the Offers, the Offeror Group

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intends to continue developing the Company's existing principal business without major redeployment of the Company's fixed assets and to continue with the employment of the Group's employees. The Offeror Group also intends to strengthen the strategic management and control of the Company, and to scientifically formulate the strategic objectives of the Company by combining them with Zhuhai's future development strategy, the details of which are as set out as follows:

- (1) strengthening the business synergy between Zhuhai Huafa and the Company, promoting the business of the Company to serve Zhuhai Huafa, serve Zhuhai, and establish an industrial development base in Zhuhai for computer, communication and consumer electronics products;
- (2) strengthening the support of the Company for the commercial operations of Zhuhai Huafa to increase its overall scale and strength;
- (3) maximizing synergies between the existing business of the Company with the real estate business of Zhuhai Huafa in relation to the land reserves of the Company;
- (4) moving the Company's registered address, headquarters, procurement centre and operational settlement centre to Zhuhai; and
- (5) further optimizing the Company's offline business, expanding the Company's online business by cooperating with well-known e-commerce companies, expanding and strengthening the Company's wholesale business, and in relation to the Company's overseas markets, establishing the Company as a leading Chinese brand, focusing on Western Europe, stabilizing West Africa and expanding into Southeast Asia.

The future development strategies, including (1) and (3), may present new business opportunities to the Group by widening the customer base and/or the source of income of the Group in the future. There are no concrete business plans laid out at this stage as to how such future development strategies would be achieved. It remains uncertain as to whether the expected synergies could be achieved and that the development strategies would indeed be realized or successful.

As reflected in development strategies (2), (4) and (5) above, it is the Offeror Group's intention to provide more support including but not limited to financial, administrative and resources support to help increase the commercial operations of the Group, to continue to expand the Group's online business and overseas market. We are of the view that such intentions and development strategies of the Offeror Group, if implemented well, shall

generally have a positive impact on the Group's business prospects in light of the Group's deteriorating liquidity and the expansion of overseas market mentioned in section headed "1.2 Historical Financial Information of the Group" above and the shifting consumer habits from offline to online. However, shareholders should note that the Offeror Group's future development strategies aforementioned may or may not be realized or successful, if realize.

It is the intention of the Offeror Group to charge some or all of the securities acquired in pursuance of the Offers for its financing purposes. However, as at the Latest Practicable Date, the Offeror Group has not commenced any negotiation regarding the charge of such securities, nor has there been any specific plan or arrangement regarding the charge of such securities.

(ii) *Proposed change of composition of the Board and senior management of the Group*

As stated in the "Letter from Guotai Junan Capital", the Transferors and the Liu Family have undertaken to Zhuhai Huafa Industrial that upon Completion, the Transferors and the Liu Family shall procure, at the earliest possible time permitted under the Takeovers Code, the Listing Rules, the articles of association of the Company and other applicable laws, that Zhuhai Huafa Industrial and its concert parties (excluding the Transferors and the Liu Family) shall have the right, at their sole discretion, depending on the number of non-executive Directors willing to resign at the direction of Zhuhai Huafa Industrial and its concert parties at the relevant time, to nominate either not less than 6 executive or non-executive Directors, or not less than 8 executive or non-executive Directors, details of which please refer to section headed "PROPOSED CHANGE OF THE BOARD COMPOSITION" in the "Letter from Guotai Junan Capital" contained in the Composite Document.

As at the Latest Practicable Date, Ms. Liu Wencui, an executive Director of the Company has tendered her resignation as an executive Director of the Company which will only become effective at the earliest possible time permitted under the Takeovers Code. The Offeror Group has nominated a new executive Director, Mr. Gao Dali, to fill the vacancy of the Board upon the resignation of Ms. Liu Wencui becoming effective. Shareholders should note that Mr. Gao Dali has several years of experience in audit, strategic merger and acquisitions and investment but does not have any relevant experience in the Group's principal business. For details of the nomination and the biography of Mr. Gao Dali, please refer to the section headed "PROPOSED CHANGE OF THE BOARD COMPOSITION" in the "Letter from Guotai Junan Capital" contained in the Composite Document. We are of the view that Mr. Gao Dali, if finally appointed, may contribute positively to the Group's financial management, future investment or merger and acquisition opportunities, however, having considered his lack of experience in the Group's principal business, whether Mr. Gao Dali would be an appropriate replacement of Ms. Liu Wenchu in the Board of the Group, is uncertain at this stage.

Save for the aforesaid, the Offeror Group has not yet identified any person to be nominated as new Directors of the Company. It is currently expected that, apart from the nomination of Mr. Gao Dali by the Offeror Group as new executive Director, other new Directors will be nominated by the Offeror Group at a later stage and their appointment, which will be subject to approval of the Shareholders at a general meeting of the Company, will only become effective after the closing of the Offers. Any further changes to the composition of the Board and senior management of the Company will be announced by the Company and made in compliance with the Takeovers Code, the Listing Rules, the articles of association of the Company and other applicable laws.

Having considered the facts that (i) the future development strategies of Offeror may or may not be realized or successful; (ii) the Board and the senior management of the Group had not been fully determined as at the Latest Practicable Date and may be subject to changes; and (iii) the prospect for the mobile phones and accessories retail industry in the PRC, in which the Group is engaged, will remain challenging (please refer to our analysis as disclosed in the paragraph headed “1.4. Business prospects of the Group” under the section headed “1. Background information of the Company” above for further details), we are of the opinion that there remains uncertainty in the future performance of the Group.

2.3 *Listing status of the Company*

The Offeror Group intends to maintain the listing of the H Shares on the Stock Exchange after the closing of the Offers.

In order to ensure that within a reasonable period after the closing of the Offers, there will be not less than 25% of the Company’s total number of issued Shares held by the public, the directors of the Offeror Group and the new directors to be appointed to the Board will jointly and severally undertake to the Stock Exchange to take appropriate steps to ensure that sufficient public float exists in the Shares. The steps that the Offeror Group may take include selling the Shares they acquire from the Offers to selected independent third parties or in the market.

3 Offer Price

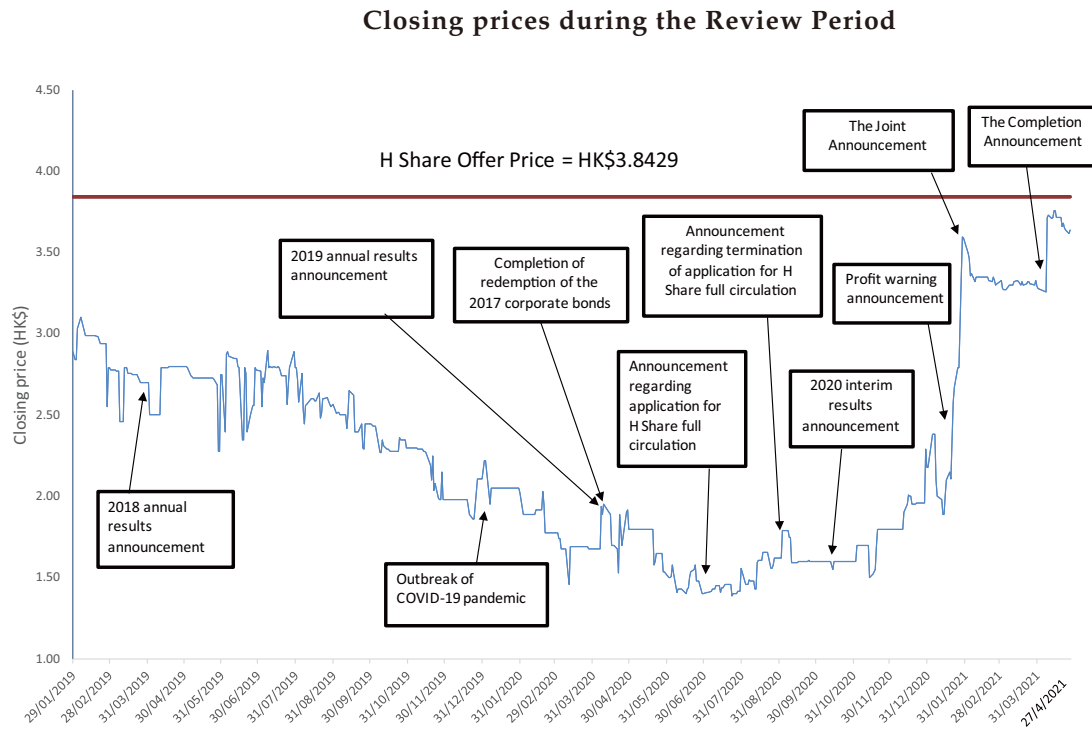
3.1 Offer Price comparison

The Domestic Share Offer Price of RMB3.2030 and the H Share Offer Price of HK\$3.8429 represent:

- (i) a premium of approximately 5.57% to the closing price of HK\$3.6400 per H Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) a premium of approximately 7.04% to the closing price of HK\$3.5900 per H Share as quoted on the Stock Exchange on the Last Trading Day;
- (iii) a premium of approximately 19.27% to the average closing price of HK\$3.2220 per H Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;
- (iv) a premium of approximately 37.39% to the average closing price of HK\$2.7970 per H Share as quoted on the Stock Exchange for the last 10 consecutive trading days up to and including the Last Trading Day;
- (v) a premium of approximately 65.98% to the average closing price of HK\$2.3153 per H Share as quoted on the Stock Exchange for the last 30 consecutive trading days up to and including the Last Trading Day;
- (vi) a discount of approximately 47.25% over the audited consolidated net asset value of the Company of approximately RMB6.0720 per Share as at 31 December 2020.

3.2 Historical price performance of the H Shares

The graph below illustrates the historical closing prices of the H Shares as quoted on the Stock Exchange during the period from 29 January 2019 (being two years prior to the Last Trading Day) and up to and including the Latest Practicable Date (the “Review Period”):



Source: the website of the Stock Exchange (www.hkex.com.hk)

We have reviewed the movements in the closing price of the H Shares during the Review Period. We consider the length of the Review Period to be reasonably long enough to illustrate the relationship between the historical trend of the closing price of the H Shares and the H Share Offer Price and, in turn, the Domestic Share Offer Price, based on which the H Share Offer Price was converted at an exchange rate on specified date.

During the Review Period, the closing prices of the H Shares ranged from the lowest of HK\$1.39 on 23 July 2020 and the highest of HK\$3.76 on 14 April 2021 and 15 April 2021. The average closing price of H Shares during the Review Period was at HK\$2.25. The Domestic Share Offer Price of RMB3.2030 and the H Share Offer Price of HK\$3.8429 is (i) higher than the closing prices of the H Shares throughout the Review Period; (ii) represents a premium of approximately 2.2% and approximately 176.5% over the highest H Share closing price and the lowest H Share closing price, respectively, during the Review Period; (iii) represents a premium of approximately 70.7% over the average closing price of H Shares during the Review Period.

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We observed a generally stable pattern in the closing price of the H Shares at the beginning of the Review Period from 29 January to 31 May 2019, which hovered in the range of HK\$2.46 to HK\$3.1. After reaching a peak on 4 February 2019 at HK\$3.1, which was at the beginning of the Review Period, the closing price of the H Shares exhibited a consistent downward trend which declined to the lowest closing price of HK\$1.39 on 23 July 2020. We noted a slight bounce back of the closing price of the H Shares in early January of 2020. However, with the COVID-19 pandemic, which broke out since January 2020 and continued to spread throughout China and countries around the world, such bounce back of closing price of the H Shares quickly lost its momentum and continued its downward trend. In 2020, the Company had issued announcement on the completion of redemption of the 2017 corporate bonds on 7 April 2020 and announcement of audited final results for the year ended 31 December 2019, in which the revenue of the Group increased only slightly by 1.97% while the net profit attributable to the owners of the parent of the Company decreased moderately by 21.88% from last year. Shortly before the lowest closing price on 23 July 2020, we also noted that the Group announced the submission of application to China Securities Regulatory Commission for the implementation of the H Share full circulation. However, such application was subsequently withdrawn in September 2020. Save as disclosed above, the Management and we are not aware of any other reasons or other announcements published by the Company which may have correlation to the Share price movement shown in the graph above.

Since reaching the lowest point of HK\$1.39 on 23 July 2020, the closing price of the H Shares exhibited a general increasing trend until before the Joint Announcement on 1 February 2021. In particular, a big rally in the closing price of the H Shares began in mid-January 2021 from HK\$1.89 on 13 January 2021 to the closing price of HK\$3.6 on 28 January 2021, right before the Joint Announcement on 1 February 2021. During this period, the interim result announcement for the six months ended 30 June 2020 and the profit warning announcement for the year ended 31 December 2020, both of which, however, suggested the deterioration of financial performance of the Group. We have discussed with the management of the Company regarding the possible reasons for the surge in the H Share price before the publication of the Joint Announcement and were advised that they were not aware of any matters which might have an impact on the Share price.

On 1 February 2021, the Company issued the Joint Announcement on the Share Purchase Agreement, Concert Party Agreement and the possible Offers. Subsequently, the closing prices of the H Shares remained stable and hovered in the range of HK\$3.27 to HK\$3.76, which were approximately 17.5% to 2.2% discount to the H Share Offer Price of HK\$3.8429. On 7 April 2020, the Company issued the Completion Announcement in relation to the Completion, and subsequently the closing prices of the H Shares reached its peak during the Review Period at HK\$3.76 on 14 April 2021 and 15 April 2021. We consider such stable performance in the closing prices of the Shares after the release of the Joint Announcement may be due to the market anticipation of the Offers. However, there is no assurance that the closing price of the H Shares will continue to rise or maintain at a level similar to or above the H Share Offer Price after the Latest Practicable Date or after the closing of the Offers.

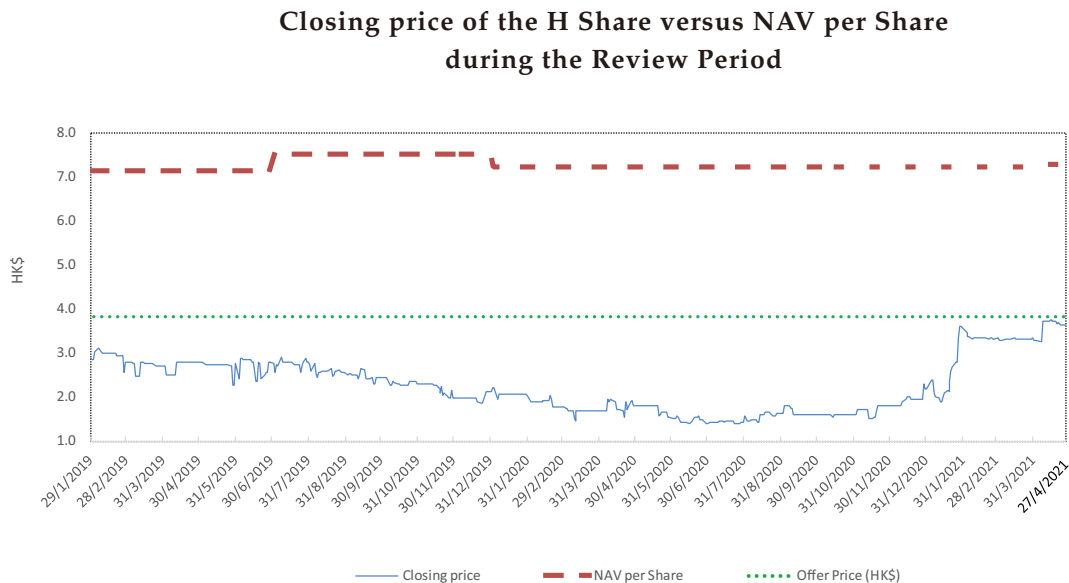
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Independent holders of H Shares should note that the information set out above is not an indicator of the future performance of the H Shares and that the price of the H Shares may increase or decrease from its closing price after the Latest Practicable Date.

We have reviewed the publications made by the Company on the website of the Stock Exchange and are not aware of any other matters that were price sensitive in nature. We believe the historical H Share price performance reflects the Group's latest and actual operating performance, financial position, business prospects and outlook and is a reliable and meaningful benchmark for the purpose of making reference in analyzing the fairness and reasonableness of the H Share Offer Price and the Domestic Share Offer Price. The H Share Offer Price and the Domestic Share Offer Price represent a premium of the all closing prices of the Shares throughout the Review Period.

3.3 Historical trading price against net asset value per Share

The following graph depicts the closing prices of the H Shares and the net asset value (the "NAV") per Share during the Review Period:



Source: the website of the Stock Exchange (www.hkex.com.hk)

Note: The NAV per Share is calculated by dividing the net asset value of the Company as extracted from the then latest published financial reports of the Company by the total number of issued Shares as at the relevant date based on the monthly returns on the websites of the Stock Exchange. The exchange rate of RMB1:HK\$1.2 was adopted in converting the net asset value of the Company to HK\$ for comparison purpose.

As demonstrated in the graph above, we noted that the H Share Offer Price represents a discount of approximately 48.9% and 47.3% to the NAV per Share as at 31 December 2019 and 2020, respectively. The Shares were traded at a discount to the NAV per Shares as at 31 December 2019 and 2020 throughout the Review Period which indicates that the NAV per Share was unable to reflect the fair value of the

Company perceived by investors, which may indicate that investors might not have valued the Shares based solely on the underlying value of the Group's assets. On the other hand, we consider that the prevailing market price is a more relevant factor in determining the fairness and reasonableness of the H Share Offer Price and the Domestic Share Offer Price because the market prices of the Group determined by the market forces of supply and demand for the Group's Shares having taken into account the business prospects of the Group as well as the prevailing market conditions by the investors directly reflect the fair value of the Group's Share. Discount to the NAV should be taken as a reference only. For details, please see our analysis on the subsection headed "3.2 Historical price performance of the H Shares" above.

3.4 Historical trading liquidity of the Shares

Apart from the H Share price analysis above, we have also conducted a review on the trading liquidity of the H Shares. The table below sets out the average daily trading volume of the H Shares on a monthly basis during the Review Period and the respective percentages of the average daily trading volume of the H Shares as compared to the total number of issued Shares and Shares held by the Public:

Month	Total trading volume of H Shares	Number of trading days in the month	Average daily trading volume of the H Shares	Percentage of average daily trading volume to total Shares (Note 1) Approximate %	Percentage of average daily trading volume to total number of Shares held by public Shareholders (Note 2) Approximate %
2019					
January (from the beginning of the Review Period, i.e. 29 January 2019)	7,000	3	2,333	0.0003%	0.0012%
February	24,500	17	1,441	0.0002%	0.0007%
March	7,500	21	357	0.0001%	0.0002%
April	106,500	19	5,605	0.0008%	0.0029%
May	6,500	21	310	0.0001%	0.0002%
June	121,000	19	6,368	0.0010%	0.0033%
July	763,000	22	34,682	0.0052%	0.0177%
August	471,000	22	21,409	0.0032%	0.0109%
September	130,500	21	6,214	0.0009%	0.0032%
October	21,000	21	1,000	0.0001%	0.0005%
November	316,000	21	15,048	0.0023%	0.0077%
December	66,500	20	3,325	0.0005%	0.0017%

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Month	Total trading volume of H Shares	Number of trading days in the month	Average daily trading volume of the H Shares	Percentage of average daily trading volume to total Shares (Note 1) Approximate %	Percentage of average daily trading volume to total number of Shares held by public Shareholders (Note 2) Approximate %
2020					
January	5,500	20	275	0.0001%	0.0001%
February	51,000	20	2,550	0.0003%	0.0010%
March	70,500	22	3,205	0.0004%	0.0012%
April	184,500	19	9,711	0.0013%	0.0037%
May	52,000	20	2,600	0.0004%	0.0010%
June	379,050	21	18,050	0.0025%	0.0069%
July	212,418	22	9,655	0.0013%	0.0037%
August	214,500	21	10,214	0.0014%	0.0039%
September	56,000	22	2,545	0.0003%	0.0010%
October	116,000	18	6,444	0.0009%	0.0025%
November	19,500	21	929	0.0001%	0.0004%
December	112,500	22	5,114	0.0007%	0.0020%
2021					
January	5,566,000	20	278,300	0.0380%	0.1065%
February	9,726,500	17	572,147	0.0781%	0.2189%
March	2,178,000	23	94,700	0.0129%	0.0362%
April (up to and including the Latest Practicable Date)	10,027,000	16	626,700	0.0856%	0.2397%

Source: the website of the Stock Exchange (www.hkex.com.hk)

Notes:

1. The percentage of average daily trading volume to total Shares is calculated based on the average daily trading volume of H Shares divided by the total issued Shares of the Company at the end of each month/period or as at the Latest Practicable Date, as applicable.
2. The total number of Shares held by the public Shareholders is calculated based on the number of total Shares excluding those held by Di Er Tong, Digital Science & Technology and Digital China (HK) Limited as at the end of each month/period or as at the Latest Practicable Date, as applicable.

As illustrated in the table above, during the Review Period and up to the Latest Practicable Date, the liquidity of H Shares was generally very low with the percentages of the average daily trading volume to the total number of issued Shares ranging from approximately 0.0001% to 0.0856%. The percentage of the average daily trading volume to the H Shares held by public ranged from approximately 0.0001% to 0.2397%. The average daily trading volume of the H Shares since the beginning of the Review Period up to the Latest Practicable Date was approximately 56,284 Shares, representing approximately 0.008% and 0.022% of the total number of issued Shares and the total number of the Shares held by public, respectively. We noted that there were trading volume spikes of approximately 5.6 million H Shares in January 2021 but we and the management were not aware of any events which may cause such spikes. The trading volumes further increased to 9.7 million and 10.0 million in February 2021 and April 2021 (up to and including the Latest Practicable Date), respectively, upon the issuance of the Joint Announcement on 1 February 2021 and the Completion Announcement on 7 April 2021, respectively.

Given that the generally very thin liquidity of the H Shares during the Review Period, it is uncertain whether there would be sufficient liquidity in the trading of the H Shares for the Independent holders of H Shares in the foreseeable future to dispose of a significant number of the H Shares in the open market without depressing the H Share price. We therefore consider that the Offers, if becomes or declares unconditional, provide the Independent holders of H Shares, particularly those who hold a large number of H Shares, with an opportunity to dispose of part or all of their H Shares if they wish to.

3.5 Market comparable analysis

Based on the financial information of the Group as set out in the 2018 Annual Report, the 2019 Annual Report and 2020 Annual Result Announcement, it is noted that over 95% of the Group's revenue was generated from the sales of mobile telecommunications devices and accessories in the PRC. The market capitalisation of the Group was approximately HK\$2,666.2 million as at the Latest Practicable Date. In assessing the fairness and reasonableness of the H Share Offer Price and the Domestic Share Offer Price, we have attempted to identify other listed companies in Hong Kong whose principal business included sales of mobile telecommunication devices in the PRC with over 50% of its revenue deriving from such business during its latest financial year for comparison analysis. However, we have not been able to identify any listed companies in Hong Kong which are principally engaged in similar business as the Group based on the aforementioned criteria. We noted GOME Retail Holdings Limited ("**GOME**") was engaged in operation and management of networks of retail stores of electrical appliances and consumer electronic products across the PRC and online sales. Based on its latest annual report, it is a sizeable retail chain across the PRC selling a wide variety of electrical and electronic products including but not limited to mobile telecommunications devices and accessories and it only has one reportable operating segment with no breakdown by products. We also noted Telecom Digital Holdings Limited ("**Telecom**"), whose business included sales of mobile telecommunication devices.

Based on our review of its annual report, Telecom generated 100% of its revenue in Hong Kong, which we believe is a different market than the PRC in terms of market size and scale, mobile phone penetration rates, growth potential and types of products sold in the markets. Accordingly, we consider it not appropriate to treat GOME and Telecom as comparable companies to the Company or to perform any analysis of the H Share Offer Price and Domestic Share Offer Price with reference to its market valuation. In the absence of any appropriate comparable companies, we have focused our analysis of the H Share Offer Price and the Domestic Share Offer Price on historical trading performance of the H Shares of the Group, trading volume of the H Shares of the Group and underlying fundamentals of the Company as discussed above.

3.6 Analysis on offer comparables

We have, based on our search on the website of the Stock Exchange, identified an exhaustive list of companies listed on the Stock Exchange which have undergone mandatory conditional or unconditional general cash offer exercises by offerors similar to the Group since 1 October 2020 and up to the Latest Practicable Date (the “**Offer Comparables**”). We consider that the period under review, being approximately six months, is adequate to provide fair and representative samples for analysis of recent mandatory general cash offer transactions in the market.

Although the Offer Comparables have different principal activities, market capitalisations, profitability and financial positions as compared to those of the Company, we consider that the Offer Comparables can provide a general reference to the pricing trend of recent mandatory general cash offer transactions, i.e. the amount that the offerors are willing pay to the independent shareholders to accept the offers, under the current economic atmosphere, so as to determine whether the H Share Offer Price and the Domestic Share Offer Price are in line with those of recent mandatory general offer transactions in the market.

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The table below illustrates the premium/discounts of the offer prices offered in the Offer Comparables over/to the prevailing share prices prior to the relevant mandatory general offer cash transactions of the Offer Comparables:

Date of announcement	Company name and stock code	Type of general offer	Offer price/initial offer price	Premium or (discount) to the			
				Closing price per share on the last trading day	average closing price per share for the last five trading days up to and including the last trading day	average closing price per share for the last 10 trading days up to and including the last trading day	average closing price per share for the last 30 trading days up to and including the last trading day
October 19, 2020	Sun Art Retail Group Limited (Stock code: 6808)	Mandatory unconditional cash offer	8.1	2.14	1	(0.49)	(8.27)
October 20, 2020	Midland IC&I Limited (Stock code: 459)	Mandatory conditional cash offer	0.09587	0.14	0.28	0.6	3.01
October 29, 2020	Milestone Builder Holdings Limited (Stock code: 1667)	Mandatory unconditional cash offer	0.28125	(3.02)	7.76	11.61	39.23
November 16, 2020	Gemini Investments (Holdings) Limited (Stock code: 174)	Mandatory unconditional cash offer	1.1	26.44	47.06	66.67	98.8
December 2, 2020	Fullwealth Construction Holdings Company Limited (Stock code: 1034)	Mandatory unconditional cash offer	0.125	(40.48)	(38.73)	(36.55)	(33.86)

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Date of announcement	Company name and stock code	Type of general offer	Offer price/initial offer price	Premium or (discount) to the			
				Closing price per share on the last trading day	average closing price per share for the last five trading days up to and including the last trading day	average closing price per share for the last 10 trading days up to and including the last trading day	average closing price per share for the last 30 trading days up to and including the last trading day
December 10, 2020	Cowell e Holdings Inc. (Stock code: 1415)	Mandatory conditional cash offer	5.87	2.98	1.38	10.34	32.09
December 17, 2020	BCI Group Holdings Limited (Stock code: 8412)	Mandatory unconditional cash offer	0.08	55.06	55.06	55.06	55.06
December 22, 2020	Pak Wing Group (Holdings) Limited (Stock code: 8316)	Mandatory unconditional cash offer	0.075	(86.61)	(85.96)	(85.66)	(82.72)
December 22, 2020	PacRay International Holdings Limited (Stock code: 1010)	Mandatory conditional cash offer	1.345	49.44	71.12	79.57	95.49
December 31, 2020	Cash Financial Services Group Limited (Stock code: 510)	Mandatory conditional cash offer	0.75	7.1	10.6	21	30.7
January 21, 2021	Great Wall Belt & Road Holdings Limited (Stock code: 524)	Mandatory unconditional cash offer	0.1687	(30.6)	(37.7)	(45.9)	(47.7)

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Date of announcement	Company name and stock code	Type of general offer	Offer price/initial price	Premium or (discount) to the			
				Closing price per share on the last trading day	average closing price per share for the last five trading days up to and including the last trading day	average closing price per share for the last 10 trading days up to and including the last trading day	average closing price per share for the last 30 trading days up to and including the last trading day
January 28, 2021	Loto Interactive Limited (Stock code: 8198)	Mandatory unconditional cash offer	0.75	8.7	6.5	6.7	7.1
March 8, 2021	Creative Enterprise Holdings Limited (Stock code: 3992)	Mandatory unconditional cash offer	1.456	5.5	3.3	4	3.3
March 19, 2021	Global Mastermind Capital Limited (Stock code: 905)	Mandatory unconditional cash offer	0.11	37.50	37.50	26.44	34.15
April 9, 2021	HKE Holdings Limited (Stock code: 1726)	Mandatory unconditional cash offer	0.188	(27.69)	(26.56)	(25.52)	(17.9)
			Average	0.44	3.51	5.86	13.90
			Median	2.98	3.30	6.70	7.10
			Maximum	55.06	71.12	79.57	98.8
			Minimum	(86.61)	(85.96)	(85.66)	(82.72)
February 1, 2021	The Company	Mandatory conditional cash offer	3.8429	7.04	19.27	37.39	65.98

Source: the website of the Stock Exchange (www.hkex.com.hk)

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As illustrated in the table above, we note that the offer prices of the majority of the Offer Comparables were set at premium over the closing prices of the share of the offerees on the last trading day, the average closing prices for the past five, 10 and 30 consecutive trading days immediately prior to and including the trading day and we consider that such premium represent the control premium (the “**Control Premium**”) the relevant offeror was willing to pay in order to acquire majority control in a listed company.

Upon comparison, the premia of the H Share Offer Price over the closing price of the H Shares on the last trading day and the average closing prices of the H Shares for the five, 10 and 30 consecutive trading days falls within the range of the maximum and minimum premium/discount of its Offer Comparables. The premia of the H Share Offer Price over the closing price of the H Shares on the Last Trading Day, the average closing prices of the H Shares for the five, 10 and 30 consecutive trading days were significantly higher than the average premia and the median premia of the Offer Comparables. Based on the above, we are of the view that the H Share Offer Price and, in turn, the Domestic Share Offer Price reflect an acceptable level of Control Premium.

RECOMMENDATION

Taking into consideration of the aforementioned principal factors and reasons, in particular the following:

- (i) Although the Group’s businesses have been profitable in the past, the Group’s financial performance and liquidity have been deteriorating during the three years ended 31 December 2020 with continuously decreasing net profit margin to as low as 0.8% for FY2020 as the Group’s offline outlets continued to decrease while its online sales, generating no more than 15.0% of its total revenue, failed to catch up. Despite the development of the 5G mobile technology, after taking into consideration of (i) decreasing demand and supply for smartphones in China as the smartphone penetration rate in China has already reached a very high level in 2019; (ii) the adverse impact on the Group’s offline retail business, which represented more than 85% of the Group’s revenue during the three years ended 31 December 2020, brought about by the shift of mobile device shopping habits from offline to online, which was facilitated by the COVID-19 pandemic; (iii) severe competition in the mobile device online market; and (iv) other uncertainties brought about by the COVID-19 pandemic, such as the reoccurrence of outbreak in localized area, and the progress of mass vaccination, the Group’s business outlook remains uncertain and challenging;

- (ii) The Offeror Group intends to maintain the listing of the H Shares on the Stock Exchange after the closing of the Offers and intends to continue developing the Company's existing principal business without major redeployment of the Company's fixed assets and to continue with the employment of the Group's employees. We are of the view that the future development strategies, if implemented well, may generally have a positive impact on the Group's business prospects. However, at this preliminary stage, it remains uncertain as to whether the expected synergies could be achieved and that the future development strategies would indeed be realized or successful. Having considered the facts that (i) the future development strategies of the Offeror may or may not be realized or successful; (ii) the Board and the senior management of the Group had not been fully determined as at the Latest Practicable Date and may be subject to changes; and (iii) the prospect for the mobile phones and accessories retail industry in the PRC, in which the Group is engaged, will remain challenging, there remains uncertainty in the future performance of the Group;
- (iii) Despite that the H Share Offer Price and, in turn, the Domestic Share Offer Price represent a discount to the NAV per share as at 31 December 2019 and 2020, the Shares were traded at a discount to the NAV per shares throughout the Review Period, which indicates that the NAV per Share was unable to reflect the fair value of the Company perceived by the investors, which may indicate that investors might not have valued the Shares based solely on the underlying value of the Group's assets. On the other hand, we consider that the prevailing market price is a more relevant factor in determining the fairness and reasonableness of the H Share Offer Price and the Domestic Share Offer Price because the market prices of the Group determined by the market forces of supply and demand for the Group's Shares having taken into account the business prospects of the Group as well as the prevailing market conditions by the investors directly reflect the fair value of Group's Shares;
- (iv) The H Share Offer Price and, in turn, the Domestic Share Offer Price represent a premium of all the closing prices of the Shares throughout the Review Period. Therefore, the Offers provide an opportunity to the Independent Shareholders to monetize their investment in the Company at a premium to the recent closing prices of the H Shares. As a result of the low trading volume of the H Shares, this makes it difficult for Independent holders of the H Shares to execute substantial sales of H Shares in the open market without depressing the price of the H Shares, as such the Offers would presents an immediate opportunity for Independent Shareholders to realise their investments in the Offer Shares for cash and redeploy the cash received from accepting the Offers into other investment opportunities, if they wish to; and

LETTER FROM INNOVAX

- (v) Based on the comparison with the Offer Comparables, which have undergone mandatory general cash offer exercises by offerors similar to the Group since 1 October 2020 and up to the Latest Practicable Date, H Share Offer Price and, in turn, the Domestic Share Offer Price reflect an acceptable level of the Control Premium.

We are of the opinion that the terms of the Offers are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to accept the Offers.

Independent holders of H Shares who intend to accept the H Share Offer are reminded that they should closely monitor the market price and the liquidity of the H Shares during the Offer Period and should consider selling their H Shares in the open market rather than accepting the H Share Offer, if the net proceeds from the sale of such H Shares in the open market would exceed the net proceeds receivable under the Offer.

For those Independent Shareholders who are attracted by and confident in the future prospects of the Group and do not wish to accept the Offers, given the background and future intention of the Offeror as detailed in the “Letter from Guotai Junan Capital” contained in the Composite Document, they may benefit from the new management and/or new business opportunities to be explored by the Offeror Group for the Group. However, given that the future development strategies of the Offeror may or may not be realized or successful, the Independent Shareholders who do not accept the Offers will still be subject to the uncertainties on the future prospects and performance of the Group’s business. We would also like to remind the Independent Shareholders that if they consider retaining their H Shares or tendering less than all their H Shares under the Offers, they should carefully consider the potential difficulties they may encounter in disposing of their investments in the Shares at the H Share Offer Price in the market after the close of the Offers in view of the historical low liquidity of the H Shares and there is no guarantee that the prevailing level of the H Share price will sustain during and after the Offer Period.

As the Offers may or may not become unconditional, Shareholders and investors of the Company should exercise extreme caution when dealing in the securities of the Company and, if in doubt as to their position, consult their professional advisers.

Yours faithfully,
For and on behalf of
Innovax Capital Limited
Alvin Kam **Erica Ling**
Managing Director *Director*

Notes:

Mr. Alvin Kam is a Responsible Officer under the SFO to engage in Type 6 (advising on corporate finance) regulated activity and has over 18 years of experience in investment banking and corporate finance.

Ms. Erica Ling is a Responsible Officer under the SFO to engage in Type 6 (advising on corporate finance) regulated activity and has around 10 years of experience in investment banking and corporate finance.

1. PROCEDURES FOR ACCEPTANCE OF THE OFFERS AND SETTLEMENTS**1.1 H Share Offer*****1.1.1 Procedures for acceptance of the H Share Offer***

- (i) To accept the H Share Offer, you should complete and sign the WHITE Form of Acceptance in accordance with the instructions printed on the same, which form part of the H Share Offer.
- (ii) If the share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your H Shares is/are in your name, and you wish to accept the H Share Offer, you must send the WHITE Form of Acceptance duly completed and signed together with the relevant share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) to the H Share Registrar, Computershare Hong Kong Investor Services Limited, whose address is situated at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, by post or by hand, marked **"Beijing Digital Telecom Co., Ltd. – H Share Offer"** on the envelope, as soon as possible and in any event not later than 4:00 p.m. on the Closing Date or such later time and/or date as the Offeror Group may determine and announce in accordance with the Takeovers Code.
- (iii) If the share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your H Shares is/are in the name of a nominee company or a name other than your own, and you wish to accept the H Share Offer whether in full or in part of your H Shares, you must either:
 - (1) lodge your H Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) with the nominee company, or other nominee, with instructions authorising it to accept the H Share Offer on your behalf and requesting it to deliver in an envelope marked **"Beijing Digital Telecom Co., Ltd. – H Share Offer"** the duly completed and signed WHITE Form of Acceptance together with the relevant H Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of

title (and/or any satisfactory indemnity or indemnities required in respect thereof) to the H Share Registrar; or

- (2) arrange for the H Shares to be registered in your name by the Company through the H Share Registrar, and deliver in an envelope marked “**Beijing Digital Telecom Co., Ltd. – H Share Offer**” the duly completed and signed WHITE Form of Acceptance together with the relevant H Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) to the H Share Registrar; or
 - (3) if your H Shares have been lodged with your licensed securities dealer/registered institution in securities/custodian bank through CCASS, instruct your licensed securities dealer/registered institution in securities/custodian bank to authorise HKSCC Nominees Limited to accept the H Share Offer on your behalf on or before the deadline set by HKSCC Nominees Limited. In order to meet the deadline set by HKSCC Nominees Limited, you should check with your licensed securities dealer/registered institution in securities/custodian bank for the timing on the processing of your instruction, and submit your instruction to your licensed securities dealer/registered institution in securities/custodian bank as required by them; or
 - (4) if your H Shares have been lodged with your investor participant’s account maintained with CCASS, authorise your instruction via the CCASS Phone System or CCASS Internet System on or before the deadline set by HKSCC Nominees Limited.
- (iv) If the share certificate(s) and/or transfer receipts and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your H Shares is/are not readily available and/or is/are lost and you wish to accept the H Share Offer in respect of your H Shares, the WHITE Form of Acceptance should nevertheless be duly completed and signed and delivered in an envelope marked “**Beijing Digital Telecom Co., Ltd. – H Share Offer**” to the H Share Registrar together with a letter stating that you have lost one or more of your H Share certificate(s) and/or transfer receipts and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) or that it/they is/are not readily available. If you find such document(s)

or if it/they become(s) available, it/ they should be forwarded to the H Share Registrar as soon as possible thereafter. If you have lost your H Share certificate(s), you should also write to the H Share Registrar for a letter of indemnity which, when completed in accordance with the instructions given, should be returned to the H Share Registrar.

- (v) If you have lodged transfer(s) of any of your H Shares for registration in your name and have not yet received your H Share certificate(s), and you wish to accept the H Share Offer in respect of your H Shares, you should nevertheless complete and sign the WHITE Form of Acceptance and deliver it in an envelope marked **“Beijing Digital Telecom Co., Ltd. – H Share Offer”** to the H Share Registrar together with the transfer receipt(s) duly signed by yourself. Such action will be deemed to be an irrevocable instruction and authority to each of Guotai Junan Securities and/or Hong Kong Huafa and/or any of their respective agent(s) to collect from the Company or the H Share Registrar on your behalf the relevant H Share certificate(s) when issued and to deliver such certificate(s) to the H Share Registrar and to authorise and instruct the H Share Registrar to hold such H Share certificate(s), subject to the terms and conditions of the H Share Offer, as if it was/they were delivered to the H Share Registrar with the WHITE Form of Acceptance.
- (vi) Acceptance of the H Share Offer will be treated as valid only if the duly completed and signed WHITE Form of Acceptance is received by the H Share Registrar by no later than 4:00 p.m. on the Closing Date or such later time and/or date as the Offeror Group may determine and announce in accordance with the Takeovers Code and the H Share Registrar has recorded that the WHITE Forms of Acceptance and any relevant documents required have been so received, and are:
 - (1) accompanied by the relevant H Share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) and, if those H Share certificate(s) is/are not in your name, such other documents (e.g. a duly stamped transfer of the relevant H Share(s) in blank or in your favour executed by the registered holder) in order to establish your right to become the registered holder of the relevant H Shares; or
 - (2) from a registered Shareholder or his personal representative (but only up to the amount of the registered holding and only to the extent that the acceptance relates to the H Shares

which are not taken into account under the other subparagraph of this paragraph (vi)); or

- (3) certified by the H Share Registrar or the Stock Exchange. If the WHITE Forms of Acceptance is executed by a person other than the registered Shareholder, appropriate documentary evidence of authority (such as grant of probate or certified copy of power of attorney) to the satisfaction of the H Share Registrar must be produced; and
 - (4) inserted in the WHITE Form of Acceptance, the total number of H Shares being equal to that represented by the H Share certificates for H Shares tendered for acceptance of the H Share Offer. If no number is inserted or a number inserted is greater or smaller than that represented by the H Share certificates for H Shares tendered for acceptance of the H Share Offer, the WHITE Form of Acceptance will be returned to you for correction and resubmission. Any corrected WHITE Form of Acceptance must be resubmitted and received by the H Share Registrar by no later than 4:00 p.m. on the Closing Date or such later time and/or date as the Offeror Group may determine and announce in accordance with the Takeovers Code.
- (vii) No acknowledgement of receipt of any WHITE Forms of Acceptance, H Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) will be given.
- (viii) The address of the H Share Registrar is 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong

1.1.2 Settlement of the H Share Offer

- (i) Provided that a valid WHITE Form of Acceptance and the relevant H Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) have been received by the H Share Registrar by no later than 4:00 p.m. on the Closing Date or such later time and/or date as the Offeror Group may determine and announce in accordance with the Takeovers Code, a cheque for the amount due to each accepting Shareholder in respect of the H Shares tendered by him/her/it under the H Share Offer, less the seller's ad valorem stamp duty payable by him/her/it, will be despatched to such Shareholder by ordinary post at his/her/its own risk as soon as possible but in any event within seven

Business Days from the later of (i) the date on which the Offers becomes, or is declared unconditional and (ii) the date on which all the relevant documents are received by the H Share Registrar and in accordance with the Takeovers Code.

- (ii) Settlement of the consideration to which any Shareholders are entitled under the H Share Offer will be implemented in full in accordance with the terms of the H Share Offer (save with respect of the payment of seller's ad valorem stamp duty), without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror Group may otherwise be, or claim to be, entitled against such Shareholders.
- (iii) No fractions of a cent will be payable and the amount of the consideration payable to a holder of H Shares who accepts the H Share Offer will be rounded up to the nearest cent.

1.2 Domestic Share Offer

1.2.1 Procedures for acceptance of the Domestic Share Offer

- (i) If you wish to accept the Domestic Share Offer, you need to send the duly completed GREEN Form of Acceptance to Zhuhai Huafa Industrial.
- (ii) Acceptance of the Domestic Share Offer will be treated as valid only if the completed GREEN Forms of Acceptance is received by Zhuhai Huafa Industrial no later than 4:00 p.m. on the Closing Date or such later time and/or date as the Offeror Group may determine and announce with the consent of the Executive, and will be treated as accepted.
- (iii) If the GREEN Form of Acceptance is executed by a person other than the registered shareholder of the Company, appropriate documentary evidence of authority to the satisfaction of Zhuhai Huafa Industrial must be produced.
- (iv) No acknowledgement of receipt of any GREEN Form of Acceptance will be given.
- (v) Zhuhai Huafa Industrial will be entitled to reject any acceptance which does not comply with the provisions and instructions contained in this Composite Document and in the GREEN Form of Acceptance, or which is otherwise incomplete, incorrect or invalid in any respect. If you wish to accept the Domestic Share Offer, it is your responsibility to ensure that the GREEN Form of Acceptance is properly completed in all respects and all required documents

are provided. A decision by Zhuhai Huafa Industrial to reject any acceptance on the grounds that it has been invalidly, incorrectly or incompletely signed, completed or submitted will be final and binding and Zhuhai Huafa Industrial shall not accept any responsibility or liability for the consequences of such a decision.

- (vi) The address of Zhuhai Huafa Industrial is Unit A8, 1/F, Block 4, 153 Rong'ao Road, Hengqin New Area, Zhuhai, the PRC.
- (vii) Please note that by completing and sending the GREEN Form of Acceptance to Zhuhai Huafa Industrial, you will be appointing Zhuhai Huafa Industrial as your attorney in respect of all the Domestic Shares to which your acceptance relates.

1.2.2 Settlement of the Domestic Share Offer

- (i) Provided that a GREEN Form of Acceptance is complete and in good order and has been received by Zhuhai Huafa Industrial, remittance by wire transfer or other means for the amount due to each accepting Shareholder in respect of the Domestic Shares tendered by it under the Domestic Share Offer will be made to such Shareholder as soon as possible but in any event within seven Business Days from the later of (i) the date on which the Offers becomes, or is declared unconditional and (ii) the date on which all the relevant documents are received by Zhuhai Huafa Industrial and in accordance with the Takeovers Code.
- (ii) Settlement of the consideration to which any Shareholders are entitled under the Domestic Share Offer will be implemented in full in accordance with the terms of the Domestic Share Offer, without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror Group may otherwise be, or claim to be, entitled against such Shareholders.

2. ACCEPTANCE PERIOD, REVISIONS, AND CONDITIONS

- (i) Unless the Offers have previously been revised or extended with the consent of the Executive, all acceptances of the Offers must be received by (i) the H Share Registrar; (for H Share Offer) and (ii) Zhuhai Huafa Industrial (for Domestic Share Offer) by 4:00 p.m. on 21 May 2021, being the first Closing Date.
- (ii) The Offers are only conditional upon valid acceptances of the Offers being received (and not, where permitted, withdrawn) by 4:00 p.m. on the date of closing of the Offers announced in this Composite Document (or such later time or date as the Offeror Group may, subject to the Takeovers Code, decide) in respect of Shares which, together with Shares acquired before or during the

Offers, will result in the Offeror Group and parties acting in concert (including the Transferors and the Liu Family) with it holding more than 50% of the voting rights of the Company. If the foregoing condition cannot be fulfilled by the date of closing of the Offers, the Offers will not become unconditional and will lapse.

- (iii) If the Offers are extended or revised, the announcement of such extension or revision shall state the next Closing Date or that the Offers will remain open until further notice. For the latter case, at least 14 days' notice in writing will be given to the Independent Shareholders who have not accepted the Offers before the Offers are closed, and an announcement in respect thereof shall be released. If the Offeror Group revises the terms of either of the Offers, all Shareholders to whom the Offers are made, whether or not they have already accepted the Offers, will be entitled to accept the revised Offers under the revised terms.
- (iv) If the Closing Date is extended, any reference in this Composite Document and in the Forms of Acceptance to the Closing Date shall, except where the context otherwise requires, be deemed to refer to the Closing Date so extended.
- (v) If the Offers lapse, the Offeror Group shall, as soon as possible but in any event within ten days thereof, return by ordinary post the share certificate(s), and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of the Shares lodged with the Form(s) of Acceptance to the relevant Independent Shareholder(s) at their own risks.

3. NOMINEE REGISTRATION

To ensure equality of treatment of all Shareholders, those registered Shareholders who hold the Shares as nominees for more than one beneficial owner should, as far as practicable, treat the holding of each beneficial owner separately. It is essential for the beneficial owners of the Shares whose investments are registered in the names of nominees to provide instructions to their nominees of their intentions with regards to the Offers.

4. ANNOUNCEMENTS

- (i) By 6:00 p.m. on the Closing Date (or such later time and/or date as the Executive may in exceptional circumstances permit), the Offeror Group must inform the Executive and the Stock Exchange of its decision in relation to the expiry, revision or extension of the Offers. The Offeror Group must post an announcement on the Stock Exchange's website by 7:00 p.m. on the Closing Date stating the results of the Offers and whether the Offers have been revised, extended, or have expired or have become or been declared unconditional (and, in such case, whether as to acceptances or in all respects), amongst other information required under Rule 19.1 of the Takeovers Code.

The announcement must state the total number of Shares and rights over Shares:

- (a) for which acceptances of the Offers have been received;
- (b) held, controlled or directed by the Offeror Group or persons acting in concert with it before the Offer Period; and
- (c) acquired or agreed to be acquired during the Offer Period by the Offeror Group or any persons acting in concert with it.

The announcement must also include details of any relevant securities (as defined under Note 4 to Rule 22 of the Takeovers Code) in the Company which the Offeror Group or any person acting in concert with it has borrowed or lent (save for any borrowed Shares which have been either on-lent or sold) and specify the percentages of the issued share capital of the Company and the percentages of voting rights of the Company represented by these numbers.

- (ii) In computing the total number of Shares represented by acceptances, only valid and accepted Form(s) of Acceptances that have been received by the H Share Registrar and Zhuhai Huafa Industrial no later than 4:00 p.m. on the Closing Date shall be included.
- (iii) As required under the Takeovers Code, all announcements in relation to the Offers which the Executive and the Stock Exchange have confirmed that they have no further comments thereon must be made in accordance with the requirements of the Takeovers Code and the Listing Rules.

5. RIGHT OF WITHDRAWAL

- (i) Acceptance of the Offers tendered by any Independent Shareholders shall be irrevocable and cannot be withdrawn, except in the circumstances set out below in sub-paragraph (ii) below or in compliance with Rule 17 of the Takeovers Code, which provides that an acceptor of the Offers shall be entitled to withdraw its/his/her acceptance after twenty-one (21) days from the first Closing Date (being Friday, 21 May 2021) if the Offers have not by then become unconditional as to acceptances and up to the earlier of such time as the Offers become or are declared unconditional as to acceptances and 4:00 p.m. on the 60th day from the date of despatch of this Composite Document (being Tuesday, 29 June 2021 (or the date beyond which the Offeror Group has stated that the Offers will not be extended, if applicable)). An acceptor of the Offers may withdraw its/his/her acceptance by lodging a notice in writing signed by the acceptor (or its/his/her agent duly appointed in writing and evidence of whose appointment is produced together with the notice) to the H Share Registrar (for H Share Offer) or Zhuhai Huafa Industrial (for Domestic Share Offer), as the case may be.

- (ii) If the Offeror Group is unable to comply with the requirements set out in the paragraphs headed “4. Announcements” of this Appendix above, as set out in Rule 19.2 of the Takeovers Code, the Executive may require the Independent Shareholders who have tendered acceptances to the Offers be granted a right of withdrawal on terms that are acceptable to the Executive until the requirements set out in that rule are met.

In such case, when any Independent Shareholder(s) withdraw(s) their acceptance(s), the Offeror Group shall, as soon as possible but in any event within ten days thereof, return by ordinary post the share certificate(s), and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of the Shares lodged with the Form(s) of Acceptance to the relevant Independent Shareholder(s) at their own risks.

6. STAMP DUTY

Seller’s Hong Kong ad valorem stamp duty arising in connection with acceptances of the H Share Offer will be payable by the relevant Shareholders at a rate of 0.1% of (i) the market value of the H Shares; or (ii) the consideration payable by Hong Kong Huafa in respect of the relevant acceptances of the H Share Offer, whichever is higher, and the amount of such duty will be deducted from the cash amount payable by Hong Kong Huafa to the relevant Shareholders accepting the H Share Offer. Hong Kong Huafa will arrange for payment of the seller’s Hong Kong ad valorem stamp duty on behalf of the relevant Shareholders accepting the H Share Offer and will pay the buyer’s Hong Kong ad valorem stamp duty in connection with the acceptance of the H Share Offer and the transfer of the Shares in accordance with the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong). No stamp duty is payable in connection with the acceptances of the Domestic Share Offer.

7. OVERSEAS INDEPENDENT SHAREHOLDERS

The Overseas Independent Shareholders should observe any applicable legal or regulatory requirements and, where necessary, seek legal advice. It is the responsibilities of the Overseas Independent Shareholders who wish to accept the Offers to satisfy themselves as to the full observance of the laws and regulations of the relevant jurisdictions in connection with the acceptance of the Offers (including the obtaining of any governmental or other consent which may be required or the compliance with other necessary formalities and the payment of and transfer or other taxes due by such Overseas Independent Shareholders in respect of such jurisdictions).

8. TAXATION ADVICE

Shareholders are recommended to consult their own professional advisers if they are in any doubt as to the taxation implications of accepting or rejecting the Offers. None of the Offeror Group and/or parties acting in concert, the Company, Guotai Junan Capital, Guotai Junan Securities, Innovax, and their respective directors, officers, agents or

associates or any other person involved in the Offers accepts any responsibility for any taxation effects on, or liabilities of, any persons as a result of their acceptance or rejection of the Offers.

9. GENERAL

- (i) All communications, notices, Form(s) of Acceptance, share certificate(s), transfer receipts(s), other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) and remittances to settle the consideration payable under the Offers to be delivered by or sent to or from the Independent Shareholders will be delivered by or sent to or from them, or their designated agents by ordinary post at their own risk, and the Offeror Group and parties acting in concert with it, their beneficial owners, the Company, Guotai Junan Securities, Guotai Junan Capital, Innovax, the H Share Registrar or any of their respective directors and professional advisers or the company secretary of the Company, and any other parties involved in the Offers and any of their respective agents do not accept any liability for any loss or delay in postage or any other liabilities that may arise as a result thereof.
- (ii) The provisions set out in the Forms of Acceptance form part of the terms of the Offers.
- (iii) The accidental omission to despatch this Composite Document and/or Forms of Acceptance or any of them to any person to whom the Offers are made will not invalidate either the H Share Offer or the Domestic Share Offer in any way.
- (iv) The Offers are, and all acceptances will be, governed by and construed in accordance with the laws of Hong Kong.
- (v) Due execution of the Forms of Acceptance will constitute an irrevocable authority to the Offeror Group, Guotai Junan Securities or such person or persons as the Offeror Group may direct to complete, amend and execute any document on behalf of the person or persons accepting the Offers and to do any other act that may be necessary or expedient for the purposes of vesting in the Offeror Group, or such person or persons as it may direct, the Shares in respect of which such person or persons has/have accepted the Offers.
- (vi) Acceptance of the Offers by any Independent Shareholders will be deemed to constitute a warranty by such person or persons to the Offeror Group and the Company that their Shares under the Offers are free from all third party rights and Encumbrances whatsoever and together with all rights accruing or attaching thereto including the right to receive in full all dividends and distributions recommended, declared, made or paid on or after the date of this Composite Document.
- (vii) References to the Offers in this Composite Document and the Forms of Acceptance shall include any revision and/or extension thereof.

- (viii) The making of the Offers to the Overseas Independent Shareholders may be prohibited or affected by the laws of the relevant jurisdiction. The Overseas Independent Shareholders should inform themselves about and observe any applicable legal or regulatory requirements. It is the responsibility of each Overseas Independent Shareholder who wishes to accept the Offers to satisfy himself/herself/itself as to the full observance of the laws and regulations of all relevant jurisdictions in connection therewith, including, but not limited to the obtaining of any governmental, exchange control or other consents and any registration or filing which may be required and the compliance with all necessary formalities, regulatory and/or legal requirements. Such Overseas Independent Shareholders shall be fully responsible for the payment of any transfer or other taxes and duties due by such Overseas Independent Shareholders in respect of the relevant jurisdictions. The Overseas Independent Shareholders are recommended to seek professional advice on deciding whether or not to accept the Offers.
- (ix) Acceptances of the Offers by any persons will be deemed to constitute a warranty by such persons that such persons are permitted under all applicable laws and regulations to receive and accept the Offers, and any revision thereof, and such acceptances shall be valid and binding in accordance with all applicable laws and regulations. Any such persons will be responsible for any such issue, transfer or other applicable taxes or other governmental payments payable by such persons.
- (x) Subject to the Takeovers Code, the Offeror Group reserves the right to notify any matter (including the making of the Offers) to all or any Independent Shareholders and with registered address(es) outside Hong Kong or whom the Offeror Group or Guotai Junan Securities knows to be nominees, trustees or custodians for such persons by announcement in which case such notice shall be deemed to have been sufficiently given notwithstanding any failure by any such Independent Shareholders to receive or see such notice, and all references in this Composite Document to notice in writing shall be construed accordingly.
- (xi) In making their decision, the Independent Shareholders must rely on their own examination of the Offeror Group, the Group and the terms of the Offers, including the merits and risks involved. The contents of this Composite Document, including any general advice or recommendation contained herein together with the Forms of Acceptance shall not be construed as any legal or business advice on the part of the Offeror Group and parties acting in concert with it, their beneficial owners, the Company, Guotai Junan Securities, Guotai Junan Capital or Innovax or their respective professional advisers. The Independent Shareholders should consult their own professional advisers for professional advice.

- (xii) Save as otherwise specified in this Composite Document, the English text of this Composite Document and the accompanying Forms of Acceptance shall prevail over their respective Chinese texts for the purpose of interpretation in case of inconsistency.

1. SUMMARY OF THE FINANCIAL INFORMATION OF THE GROUP FOR THE THREE YEARS ENDED 31 DECEMBER 2018, 2019 AND 2020

The following is the summary of the audited consolidated financial results of the Group for each of the three years ended 31 December 2018, 2019 and 2020 as extracted from the annual reports of the Company for the years ended 31 December 2018 and 2019, and the annual results announcement dated 31 March 2021 issued by the Company respectively.

	For the year ended 31 December		
	2020	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>
Revenue	13,550,150	15,350,953	14,957,133
Cost of sales	(12,373,459)	(13,582,076)	(13,042,383)
Gross profit	<u>1,176,691</u>	<u>1,768,877</u>	<u>1,914,750</u>
(Loss)/profit before tax from continuing operations	<u>106,407</u>	<u>332,146</u>	<u>384,842</u>
Income tax (expense)/credit	8,105	(71,694)	(78,633)
(Loss)/profit for the year from a discontinued operation	<u>—</u>	<u>—</u>	<u>15,892</u>
(Loss)/profit for the year	<u>114,512</u>	<u>260,452</u>	<u>322,101</u>
(Loss)/profit for the year, attributable to			
— Owners of the Company	114,062	257,439	329,536
— Non-controlling interests	<u>450</u>	<u>3,013</u>	<u>(7,435)</u>
Other comprehensive (loss)/income, which may be reclassified to profit or loss in subsequently periods			
— Exchange differences on translation of foreign operations	1,147	(361)	836
— Share of other comprehensive (loss)/income of a joint venture	<u>(9,085)</u>	<u>715</u>	<u>151</u>
Other comprehensive	<u>(35,465)</u>	<u>(6,090)</u>	<u>1,601</u>

	For the year ended 31 December		
	2020	2019	2018
	RMB'000	RMB'000	RMB'000
	(audited)	(audited)	(audited)
Other comprehensive (loss)/income, which will not be reclassified to profit or loss in subsequently periods			
— Equity investments designated at fair value through other comprehensive loss			
Changes in fair value			
— Equity investments designated at fair value through other comprehensive loss			
Income tax effect	8,866	1,522	—
Other comprehensive (loss)/ income for the year, net of tax	(34,537)	(4,214)	2,588
Total comprehensive (loss)/ income for the year	79,975	256,238	324,689
Total comprehensive (loss)/ income for the period/year, attributable to:			
— Owners of the Company	79,776	253,227	331,792
— Non-controlling interests	199	3,011	(7,103)
Basic and diluted (loss)/earning per share attributable to owners of the Company (expressed in RMB)	0.16	0.39	0.49
The amounts of dividends distributed to owners	—	—	—

The Group's consolidated financial statements as at and for each of the three years ended 31 December 2018, 2019 and 2020 had been audited by the Company's independent auditor, Ernst & Young, with unqualified and unmodified opinions issued, and did not contain any emphasis of matter or material uncertainty related to going concern.

There was no other item of any income or expense which were material in the audited consolidated financial statements of the Group for each of the three years ended 31 December 2018, 2019, and 2020.

2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE THREE YEARS ENDED 31 DECEMBER 2018, 2019 AND 2020

The Company is required to set out or refer to in this Composite Document the consolidated statement of profit or loss, 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 2018 (the “**2018 Financial Statements**”); (ii) the audited consolidated financial statements of the Group for the year ended 31 December 2019 (the “**2019 Financial Statements**”); and (iii) the audited consolidated financial statements of the Group for the year ended 31 December 2020 (the “**2020 Financial Statements**”), together with the notes to the relevant published accounts which are of major relevance to the appreciation of the above financial information.

The 2018 Financial Statements are set out from page 115 to page 216 in the annual report of the Company for the year ended 31 December 2018 (the “**2018 Annual Report**”), which was published on 17 April 2019. The 2018 Annual Report is posted on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.dixintong.com>), and is accessible via the following hyperlink:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0417/ltn201904171116.pdf>

The 2019 Financial Statements are set out from page 124 to page 224 in the 2019 annual report of the Company for the year ended 31 December 2019 (the “**2019 Annual Report**”), which was published on 27 April 2020. The 2019 Annual Report is posted on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.dixintong.com>), and is accessible via the following hyperlink:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0427/2020042702310.pdf>

The 2018 Financial Statements and the 2019 Financial Statements (but not any other part of the 2018 Annual Report and the 2019 Annual Report in which they respectively appear) are incorporated by reference into this Composite Document and form part of this Composite Document.

The announcement of the annual results of the Company for the year ended 31 December 2020, which was issued on 31 March 2021, is posted on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.dixintong.com>), and is accessible via the following hyperlink:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0331/2021033103156.pdf>

The annual results of the Company for the year ended 31 December 2020 are incorporated by reference into this Composite Document and form part of this Composite Document.

3. INDEBTEDNESS STATEMENT

As at 28 February 2021, being the latest practicable date for the purposes of this indebtedness statement prior to the printing of this Composite Document, the Group had outstanding borrowings of approximately RMB2,200,089,180, details of which are set out below:

	Maturity	RMB'000
Current		
Bank loans:		
Unsecured, repayable within one year	2021-2022	462,340.43
Secured, repayable within one year	2021-2022	1,668,000.00
Other loans:		
Unsecured, repayable within one year	2021-2022	35,716.67
Secured, repayable within one year	2021-2022	12,000.00
		<u>2,178,057.10</u>
Long term		
Unsecured, repayable within one year	2022-2025	<u>22,032.08</u>

Save as disclosed above, and apart from intra-group liabilities and normal trade payables in the ordinary course of business, as at 28 February 2021, the Group did not have any debt securities issued or outstanding, or authorised or otherwise credited but unissued, term loans, other borrowings, or indebtedness in the nature of borrowings including bank overdrafts and liabilities under acceptance (other than normal trade bills) or acceptance credits or hire purchase commitments, mortgages and charges, guarantees or material contingent liabilities.

4. MATERIAL CHANGE

The Directors confirm that there had been no material change in the financial or trading position or outlook of the Group since 31 December 2020, 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.

1. RESPONSIBILITY STATEMENT

All Directors jointly and severally accept full responsibility for the accuracy of information contained in this Composite Document (other than the information in relation to the Offeror Group and/or parties acting in concert with any of them (for this purpose, excluding the Transferors and the Liu Family)) and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this Composite Document (other than those expressed by the directors of Zhuhai Huafa, Zhuhai Huafa Industrial and/or Hong Kong Huafa) have been arrived at after due and careful consideration and there are no other facts not contained in this Composite Document, the omission of which would make any statement in this Composite Document misleading.

All directors of Zhuhai Huafa, Zhuhai Huafa Industrial and Hong Kong Huafa jointly and severally accept full responsibility for the accuracy of information contained in this Composite Document (other than the information in relation to the Company, the Transferors and/or the Liu Family) and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this Composite 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 Composite Document, the omission of which would make any statement in this Composite Document misleading.

2. CORPORATE INFORMATION ON THE GROUP

The registered office of the Company is at No. 101, 4/F, C Yi'an Business Building, 18 Building Yi'an Jiayuan, Beiwa West, Haidian District, Beijing, the PRC. The principal place of business of the Company in Hong Kong is at Unit D, 16/F, MG Tower, 133 Hoi Bun Road, Kwun Tong, Hong Kong.

3. SHARE CAPITAL

As the Company is a joint stock company incorporated in the PRC with limited liability, the Company does not have an authorised share capital. The issued share capital of the Company as at the Latest Practicable Date were as follows:

Issued and fully paid:

H Shares	– 394,760,400 H Shares of RMB1 each	394,760,400
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Domestic Shares	– 337,700,000 Domestic Shares of RMB1 each	337,700,000
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All issued Shares rank equally in all respects, including in particular as to dividend, voting rights and return on capital.

The H Shares are listed and traded on the Main Board of the Stock Exchange. None of the Shares is listed on, or dealt in, another stock exchange, nor is any listing of or permission to deal in Shares being, or proposed to be, sought on any other stock exchange.

The Company had not issued any Shares since 31 December 2020, being the date on which the last financial year of the Company ends, up to the Latest Practicable Date.

As at the Latest Practicable Date, the Company had no other outstanding securities, options, warrants or derivatives which are convertible into or which confer rights to require the issue of Shares and the Company has no other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) as at the Latest Practicable Date.

4. MARKET PRICES

The table below sets out the closing prices of the H Shares quoted on the Stock Exchange on (i) the last Business Day of each of the calendar months during the Relevant Period, (ii) the Last Trading Day, and (iii) the Latest Practicable Date:

	Closing price (HK\$)
31 August 2020	1.62
30 September 2020	1.60
30 October 2020	1.60
30 November 2020	1.80
31 December 2020	2.18
29 January 2021 (being the Last Trading Day)	3.59
26 February 2021	3.31
31 March 2021	3.29
27 April 2021 (being the Latest Practicable Date)	3.64

5. DISCLOSURE OF INTERESTS IN SHARES

(i) Director's interests and chief executive's interests

As at the Latest Practicable Date, save as disclosed below, none of the Directors or chief executive of the Company holds any interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange (a) pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were deemed or taken to have under such provisions of the SFO); (b) pursuant to section 352 of the SFO to be entered in the register referred to therein or; (c) pursuant to the

Model Code for Securities Transactions by Directors of Listed Issuers (“**Model Code**”) set out in Appendix 10 of the Listing Rules as adopted by the Company; and (d) pursuant to the requirements of the Takeovers Code:

Directors	Nature of Interest	Total number of Shares held	Approximate percentage of the existing issued share capital of the Company
Mr. Liu Donghai	Interests in controlled corporation/Concert party to an agreement to buy shares described in s. 317(1)(a) of the SFO (<i>Note 1</i>)	278,231,158 Domestic Shares	37.99%
Ms. Liu Wencui	Interests in controlled corporation/Concert party to an agreement to buy shares described in s. 317(1)(a) of the SFO (<i>Note 2</i>)	278,231,158 Domestic Shares	37.99%

Notes:

- (1) Mr. Liu Donghai is a director of and a shareholder as to 84.72% of Digital Science & Technology, and accordingly is deemed to be interested in the 168,362,098 Domestic Shares held by Digital Science & Technology by virtue of the SFO. Mr. Liu Donghai is acting in concert with Zhuhai Huafa Industrial pursuant to the Concert Party Agreement, and accordingly is deemed to be interested in the 109,869,060 Domestic Shares held by Zhuhai Huafa Industrial by virtue of the SFO.
- (2) Ms. Liu Wencui is deemed to be interested in the 168,362,098 Domestic Shares held by Digital Science & Technology by virtue of the SFO. Ms. Liu Wencui is acting in concert with Zhuhai Huafa Industrial pursuant to the Concert Party Agreement, and accordingly is deemed to be interested in the 109,869,060 Domestic Shares held by Zhuhai Huafa Industrial.

(ii) Substantial Shareholders' interests

As at the Latest Practicable Date, save as disclosed below, as far as was known to the Directors, no persons (other than the Directors, Supervisors or chief executive of the Company) held interests in the relevant securities (as defined under Note 4 to Rule 22 of the Takeovers Code), or had interests or short positions in the Shares and underlying Shares which are required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at a general meeting of the Company:

Name of Substantial Shareholder	Nature of interest	Total number of Shares interested	Approximate percentage of the class of Shares	Approximate percentage of the existing issued share capital of the Company
<i>Domestic Shares</i>				
Di Er Tong	Concert party to an agreement to buy shares described in s. 317(1)(a) of the SFO (<i>Note 1</i>)	278,231,158 Domestic Shares	82.39%	37.99%
Digital Science & Technology	Beneficial owner / Concert party to an agreement to buy shares described in s. 317(1)(a) of the SFO (<i>Note 2</i>)	278,231,158 Domestic Shares	82.39%	37.99%
Liu Hua	Interest in controlled corporation / Concert party to an agreement to buy shares described in s. 317(1)(a) of the SFO (<i>Notes 3 and 4</i>)	278,231,158 Domestic Shares	82.39%	37.99%
Liu Songshan	Concert party to an agreement to buy shares described in s. 317(1)(a) of the SFO (<i>Note 4</i>)	278,231,158 Domestic Shares	82.39%	37.99%
Liu Wenli	Interest in controlled corporation / Concert party to an agreement to buy shares described in s. 317(1)(a) of the SFO (<i>Notes 3 and 4</i>)	278,231,158 Domestic Shares	82.39%	37.99%

Name of Substantial Shareholder	Nature of interest	Total number of Shares interested	Approximate percentage of the class of Shares	Approximate percentage of the existing issued share capital of the Company
Liu Yongmei	Interest in controlled corporation/ Concert party to an agreement to buy shares described in s. 317(1)(a) of the SFO (<i>Notes 3 and 4</i>)	278,231,158 Domestic Shares	82.39%	37.99%
Zhuhai Huafa Industrial	Beneficial owner/ Concert party to an agreement to buy shares described in s. 317(1)(a) of the SFO (<i>Note 5</i>)	278,231,158 Domestic Shares	82.39%	37.99%
Zhuhai Huafa	Interests in controlled corporation	109,869,060 Domestic Shares	32.53%	15%
<i>H Shares</i>				
Digital China (HK) Limited	Beneficial owner (<i>Note 6</i>)	158,350,000 H Shares	40.11%	21.62%
Digital China (China) Limited	Interests in controlled corporation (<i>Note 6</i>)	158,350,000 H Shares	40.11%	21.62%
Digital China Group Co., Ltd.	Interests in controlled corporation (<i>Note 6</i>)	158,350,000 H Shares	40.11%	21.62%
Dawn Galaxy International Limited	Beneficial owner (<i>Note 7</i>)	42,000,000 H Shares	10.64%	5.73%
Nelson Innovation Limited	Beneficial owner (<i>Note 8</i>)	65,793,400 H Shares	16.67%	8.98%
Mr. Liu Qiangdong	Interests in controlled corporation (<i>Note 8</i>)	65,793,400 H Shares	16.67%	8.98%

Name of Substantial Shareholder	Nature of interest	Total number of Shares interested	Approximate percentage of the class of Shares	Approximate percentage of the existing issued share capital of the Company
Max Smart Limited	Interests in controlled corporation (<i>Note 8</i>)	65,793,400 H Shares	16.67%	8.98%
JD.com Inc.	Interests in controlled corporation (<i>Note 8</i>)	65,793,400 H Shares	16.67%	8.98%
JD.com Investment Limited	Interests in controlled corporation (<i>Note 8</i>)	65,793,400 H Shares	16.67%	8.98%

Notes:

- (1) Di Er Tong is acting in concert with Digital Science & Technology and Zhuhai Huafa Industrial pursuant to the Concert Party Agreement, and accordingly is deemed to be interested in the 168,362,098 Domestic Shares and the 109,869,060 Domestic Shares held by Digital Science & Technology and Zhuhai Huafa Industrial respectively.
- (2) Digital Science & Technology is acting in concert with Zhuhai Huafa Industrial pursuant to the Concert Party Agreement, and accordingly is deemed to be interested in the 109,869,060 Domestic Shares held by Zhuhai Huafa Industrial.
- (3) Mr. Liu Donghai, Ms. Liu Hua, Ms. Liu Wencui, Ms. Liu Yongmei and Ms. Liu Wenli respectively hold 84.72%, 5.06%, 3.93%, 5.06% and 1.23% interests in Digital Science & Technology. Accordingly, pursuant to the SFO, Mr. Liu Donghai, Ms. Liu Wencui, Ms. Liu Yongmei, Ms. Liu Hua and Ms. Liu Wenli are deemed to be interested in 168,362,098 Domestic Shares held by Digital Science & Technology.
- (4) Each of Mr. Liu Donghai, Ms. Liu Hua, Mr. Liu Songshan, Ms. Liu Wencui, Ms. Liu Wenli and Ms. Liu Yongmei is acting in concert with Digital Science & Technology and Zhuhai Huafa Industrial pursuant to the Concert Party Agreement, and accordingly is deemed to be interested in the 168,362,098 Domestic Shares and the 109,869,060 Domestic Shares held by Digital Science & Technology and Zhuhai Huafa Industrial respectively.
- (5) Zhuhai Huafa Industrial is acting in concert with Digital Science & Technology pursuant to the Concert Party Agreement, and accordingly is deemed to be interested in the 168,362,098 Domestic Shares held by Digital Science & Technology.
- (6) Digital China (HK) Limited (“**Digital China**”) directly holds 158,350,000 H Shares of the Company, and Digital China Group Co., Ltd. (“**Digital China Group**”, a company listed on the Shenzhen Stock Exchange (SZ: 000034)) holds 100% interests in Digital China through its wholly-owned subsidiary Digital China (China) Limited (“**Digital China (China)**”). Accordingly, pursuant to the SFO, Digital China Group and Digital China (China) are deemed to be interested in 158,350,000 H Shares held by Digital China.
- (7) Dawn Galaxy International Limited is ultimately held by Mr. Cai Yuanchun, Ms. Zhong Jiping, Mr. Chen Ping and Mr. Sun Shaojian.
- (8) Nelson Innovation Limited directly holds 65,793,400 H Shares of the Company, and Liu Qiangdong holds 72.90% interests in JD.com, Inc. through his wholly-owned subsidiary Max Smart Limited, and JD.com, Inc. holds 100% interests in Nelson Innovation Limited through its wholly-owned subsidiary JD.com Investment Limited. Accordingly, pursuant to the SFO, Liu Qiangdong, Max Smart Limited, JD.com, Inc. and JD.com Investment Limited are deemed to be interested in 65,793,400 H Shares held by Nelson Innovation Limited.

(iii) As at the Latest Practicable Date,

- (a) save as disclosed in sub-paragraphs (i) and (ii) above, none of the Offeror Group, its directors or partners (as the case may be) or any parties acting in concert with any of them had any interests in or owned or controlled any Shares or other securities of the Company carrying voting rights or convertible securities, warrants, options or derivatives of the Company;
- (b) there were no Shares or other securities of the Company carrying voting rights or convertible securities, warrants, options or derivatives of the Company which the Offeror Group or any parties acting in concert with any of them has borrowed or lent;
- (c) the Company had no interest in the equity share capital or any convertible securities, warrants, options and derivatives of the Offeror Group;
- (d) save as disclosed in sub-paragraphs (i) and (ii) above, none of the Directors had any interest in the Shares or any convertible securities, warrants, options and derivatives in respect of any Shares, and in the equity share capital or any convertible securities, warrants, options and derivatives of the Offeror Group;
- (e) save as disclosed in sub-paragraphs (i) and (ii) above, no Shares or any convertible securities, warrants, options and derivatives of the Company was owned or controlled by any subsidiary of the Company, or by a pension fund of the Company or of any subsidiary of the Company, or by a person who is presumed to be acting in concert with the Company by virtue of class (5) of the definition of acting in concert, or who is an associate of the Company by virtue of class (2) of the definition of associate (but excluding any exempt principal trader and any exempt fund manager);
- (f) save for the Share Purchase Agreement, the Concert Party Agreement and the Existing Share Pledges, there was no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code which existed between the Offeror Group or any person acting in concert with the Offeror Group and any other person, and save as disclosed in sub-paragraphs (i) and (ii) above, none of the parties to the Share Purchase Agreement, the Concert Party Agreement or the Existing Share Pledges had any interests in or owned or controlled any Shares or other securities of the Company carrying voting rights or convertible securities, warrants, options or derivatives of the Company;
- (g) save for the Share Purchase Agreement, the Concert Party Agreement and the Existing Share Pledges, 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) and (5) of the

definition of acting in concert or who is an associate of the Company by virtue of classes (2), (3) and (4) of the definition of associate, and any other person;

- (h) save as disclosed in sub-paragraphs (i) and (ii) above, no Shares or any convertible securities, warrants, options and derivatives of the Company was owned or controlled by any person with whom the Company, or any other 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 or who is an associate of the Company by virtue of classes (2), (3) and (4) of the definition of associate had entered into an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code;
- (i) no Shares or any convertible securities, warrants, options or derivatives of Company were managed on a discretionary basis by fund managers (other than exempt fund managers) connected with the Company;
- (j) none of the Directors held any beneficial shareholdings in the Company which would otherwise entitle them to accept or reject the Offers; and
- (k) none of the Company or any of the Directors had borrowed or lent any Shares or convertible securities, warrants, options or derivatives of the Company.

In respect of sub-paragraph (iii)(j) above, for the avoidance of doubt, certain Directors hold interest in the Shares as disclosed in sub-paragraphs (i) and (ii) above. However, no Offers will be extended to such shareholdings held by the Directors who are acting in concert with the Offeror Group.

- (iv) As at the Latest Practicable Date, no benefit (other than statutory compensation) was or would be given to any Director as compensation for loss of office or otherwise in connection with the Offers.
- (v) As at the Latest Practicable Date, save for the Concert Party Agreement, there was no agreement, arrangement or understanding (including any compensation arrangement) between the Offeror Group or any party acting in concert with the Offeror Group and any Directors, recent Directors, Shareholders or recent Shareholders having any connection with or was dependent upon the Offers.
- (vi) As at the Latest Practicable Date, save for the Concert Party Agreement, there was no agreement or arrangements between any Directors and any other person which was conditional on or dependent upon the outcome of the Offers, or otherwise connected with the Offers.
- (vii) As at the Latest Practicable Date, save for the Concert Party Agreement, there was no material contract entered into by the Offeror Group or any of its ultimate beneficial owners in which any Director has a material personal interest.

- (viii) As at the Latest Practicable Date, there was no agreement, arrangement or understanding that any securities of the Company, acquired in pursuance of the Offers would be transferred, charged or pledged to any other persons.

6. DEALINGS IN SECURITIES AND OTHER ARRANGEMENTS

Dealings in securities

- (i) Save for the acquisition of the Sale Shares, none of the Offeror Group and the parties acting in concert with it (excluding the Transferors and the Liu Family) had dealt for value in any Shares, options, derivatives, warrants or other securities convertible into Shares during the Relevant Period.
- (ii) Save as disclosed below, none of the Transferors and the Liu Family had dealt for value in any Shares, options, derivatives, warrants or other securities convertible into Shares during the Relevant Period:

Name	Date of transaction (D/M/Y)	Nature of transaction	On/off the Stock Exchange	No. of Shares involved	Transaction price (RMB)
Digital Science & Technology	10/09/2020	Sale of Domestic Shares	Off	9,600,000	27,840,000
Digital Science & Technology	26/09/2020	Sale of Domestic Shares	Off	24,868,842	73,000,000

- (iii) Save as disclosed in (ii) above, during the Relevant Period, neither the Company nor any of the Directors had dealt for value in any Shares, convertible securities, warrants, options or derivatives in respect of any Shares, or in any equity share capital, convertible securities, warrants, options or derivatives in respect of the Offeror Group;
- (iv) During the period beginning from the commencement of the Offer Period up to the Latest Practicable Date, none of the subsidiaries of the Company, or pension funds of the Company or of any subsidiary of the Company, or any person who is presumed to be acting in concert with the Company by virtue of class (5) of the definition of acting in concert, or who is an associate of the Company by virtue of class (2) of the definition of associate (but excluding any exempt principal trader and any exempt fund manager) had dealt for value in the Shares or any convertible securities, warrants, options or derivatives in respect of any Shares;
- (v) Save as disclosed in (ii) above, during the Relevant Period, no person who has an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Offeror Group or any person acting in concert with the Offeror

Group had dealt for value in the Shares or any convertible securities, warrants, options or derivatives in respect of any Shares;

- (vi) During the period beginning from the commencement of the Offer Period up to the Latest Practicable Date, no person who has 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 or who is an associate of the Company by virtue of classes (2), (3) and (4) of the definition of associate, had dealt for value in the Shares or any convertible securities, warrants, options or derivatives in respect of any Shares; and
- (vii) During the period beginning from the commencement of the Offer Period up to the Latest Practicable Date, no fund managers connected with the Company (other than exempt fund managers) who managed funds on a discretionary basis had dealt for value in any Shares or any other convertible securities, warrants, options or derivatives in respect of any Shares.

Arrangements in connection with the Offers

Save for the Share Purchase Agreement and the Concert Party Agreement, no other agreement, arrangement or understanding (including any compensation arrangement) existed between the Offeror Group or any persons acting in concert with it and any of the Directors, recent Directors, and/or Shareholders, having connection with or dependence upon the Offers:

Other arrangements

The Offeror Group (with regard to information relating to the Offeror Group and/or shares of the Offeror Group) and/or the Company (with regard to information relating to the Transferors and/or the Liu Family and/or the Shares) confirm that as at the Latest Practicable Date:

- (1) save for the Share Purchase Agreement and the Concert Party Agreement and as disclosed in the section headed “3. Disclosure of Interests in Shares” in this Appendix, none of the Offeror Group and/or parties acting in concert with any of them owns or has control or direction over any voting rights or rights over the Shares or convertible securities, warrants, options or derivatives of the Company;
- (2) there is no outstanding derivative in respect of the securities in the Company which has been entered into by the Offeror Group and/or any party acting in concert with any of them;
- (3) save for the Share Purchase Agreement, the Concert Party Agreement and the Existing Share Pledges (the details of which have been disclosed in the Joint Announcement), there is no arrangement (whether by way of option, indemnity or otherwise) of any kind referred to in Note 8 to Rule 22 of the Takeovers Code in relation to the shares of the Offeror Group or the Shares and which might be material to the Offers;

- (4) there is no agreement or arrangement to which the Offeror Group and/or parties acting in concert with any of them is a party which relates to circumstances in which it may or may not invoke or seek to invoke a pre-condition or a condition to the Offers;
- (5) none of the Offeror Group and parties acting in concert with any of them has received any irrevocable commitment(s) to accept or reject the Offers;
- (6) save for the consideration for the Sale Shares, being RMB351,900,000, there is no (i) other consideration, compensation or benefit in any form paid or payable by the Offeror Group to the Transferors and/or the Liu Family and (ii) no special deal between (a) the Transferors and/or the Liu Family on the one hand, and (b) the Offeror Group and/or parties acting in concert with any of them on the other hand;
- (7) there is no understanding, arrangement or agreement which constitutes a special deal between (i) any Shareholder and (ii)(a) Zhuhai Huafa Industrial, Hong Kong Huafa and their concert parties, (b) the Group or any of its associated companies, or (c) the Transferors, the Liu Family and their concert parties; and
- (8) there is no other agreement, arrangement or understanding (including any compensation arrangement) which constitutes a special deal existing between (i) the Offeror Group and/or parties acting in concert with any of them (excluding the Transferors and the Liu Family) and (ii)(a) the Transferors and/or the Liu Family and their concert parties or (b) any Shareholders.

7. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business carried on or intended to be carried on by any members of the Group) had been entered into by members of the Group after the date which is two years before the commencement of the Offer Period up to and including the Latest Practicable Date, and which are or may be material:

- (a) the equity transfer agreement dated 28 June 2019 made between Digital Science & Technology as transferor and the Company as transferee, in respect of 15% of the equity interest in China Ocean Intelligent Equipment Manufacturing (Shenzhen) Company Limited (中海智能裝備製造(深圳)有限公司) in consideration of RMB7.5 million payable by the Company to Digital Science & Technology, further details of which are disclosed in the announcement of the Company dated 28 June 2019;
- (b) the 21 equity transfer agreements, each dated 15 July 2019, made between the Company as transferor, and each of Mr. Zhou Qing (周清), Mr. Li Kai (李凱), Ms. Zhou Yujing (周玉靜), Mr. Yang Zhiyong (楊志勇), Ms. Chen Xiujun (陳秀俊), Mr. Jiao Liping (焦立平) and Mr. Li Yonggang (李勇剛) as transferee (collectively, the “**Shanghai Subsidiaries Transferees**”), in respect of 25% of

equity interests in each of Shanghai Chuanda Communication Technology Co., Ltd. (上海川達通信技術有限公司), Shanghai Dixin Electronic Communication Technology Co., Ltd. (上海迪信電子通信技術有限公司) and Shanghai Dixin South Communication Technology Co., Ltd. (上海迪信南方通信技術有限公司), in consideration of a total of RMB70 million payable by the Shanghai Subsidiaries Transferees to the Company, further details of which are disclosed in the announcement of the Company dated 15 July 2019;

- (c) the joint venture agreement dated 26 July 2019 made between the Company and Suqian Jiashi Information Technology Co., Ltd. (宿遷嘉時信息技術有限公司) (“**Suqian Jiashi**”), pursuant to which the Company and Suqian Jiashi agreed to established a joint venture company by joint capital contribution, of which RMB196 million is to be contributed by the Company and RMB204 million is to be contributed by Suqian Jiashi, further details of which are disclosed in the announcement of the Company dated 26 July 2019;
- (d) the equity transfer agreement dated 9 April 2021 made between the Company as transferor, and Henan Digital Trading Company Limited (河南迪信通商貿易有限公司) as transferee, in respect of 100% of the equity interest in Beijing Digital (Spain), S.L., in consideration of RMB89 million, further details of which are disclosed in the announcement of the Company dated 9 April 2021; and
- (e) the loan agreement dated 22 April 2021 made between Bank of Tangshan Co., Ltd. as lender and the Company as borrower in respect of a loan in the amount of RMB800 million.

8. DIRECTORS’ SERVICE AGREEMENTS

As at the Latest Practicable Date, none of the Directors had entered into, or proposed to enter into, any service contract with the Company or any of its subsidiaries or associated companies which:

- (a) (including both continuous and fixed term contracts) had been entered into or amended within 6 months before the commencement of the Offer Period;
- (b) was a continuous contract with a notice period of 12 months or more; or
- (c) was a fixed term contract with more than 12 months to run irrespective of the notice period.

9. MATERIAL LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration or claims of material importance and, so far as the Directors are aware, no litigation or claims of material importance was pending or threatened by or against the Company and any of its subsidiaries.

10. EXPERTS AND CONSENTS

The qualifications of experts who have been named in this Composite Document or who have given their opinions or advice, which are contained in this Composite Document are as follows:

Name	Qualifications
Guotai Junan Securities	a corporation licensed under the SFO permitted to engage in type 1, 2 and 4 regulated activities (as defined under the SFO)
Guotai Junan Capital	a corporation licensed under the SFO permitted to engage in type 6 regulated activity (as defined under the SFO)
Innovax	a corporation licensed under the SFO permitted to engage in type 1 and type 6 regulated activities (as defined under the SFO)

Each of the above experts has given and has not withdrawn its written consent to the issue of this Composite Document with the inclusion herein of its letter, opinions, report and/or references to its name, in the form and context in which it is included.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection (i) on the website of the SFC (www.sfc.hk); (ii) on the website of the Company (<http://www.dixintong.com/>); and (iii) at the principal place of business of the Company in Hong Kong at Unit D, 16/F, MG Tower, 133 Hoi Bun Road, Kwun Tong, Hong Kong, during normal business hours from 9:00 a.m. to 5:00 p.m., Monday to Friday (except public holidays), from the date of this Composite Document up to and including the Closing Date:

- (a) the memorandum and articles of association of the Company;
- (b) the articles of association of Hong Kong Huafa;
- (c) the articles of association of Zhuhai Huafa Industrial;
- (d) the annual reports of the Company for the two years ended 31 December 2018 and 2019;
- (e) the annual results announcement of the Company for the year ended 31 December 2020;
- (f) the “Letter from Guotai Junan Capital”, the text of which is set out on pages 13 to 25 of this Composite Document;

- (g) the “Letter from Zhuhai Huafa Industrial” the text of which is set out on pages 26 to 28 of this Composite Document;
- (h) the “Letter from the Board” the text of which is set out on pages 29 to 41 of this Composite Document;
- (i) the “Letter from the Independent Board Committee” the text of which is set out on pages 42 to 43 of this Composite Document;
- (j) the “Letter from Innovax” the text of which is set out on pages 44 to 72 of this Composite Document;
- (k) the written consents of the experts mentioned in the paragraphs headed “10. Experts and Consents” in this Appendix;
- (l) the material contracts referred to in the paragraphs headed “7. Material Contracts” in this Appendix;
- (m) the Share Purchase Agreement;
- (n) the Concert Party Agreement;
- (o) the Loan Agreement; and
- (p) this Composite Document and the accompanying Forms of Acceptance.

12. MISCELLANEOUS

- (a) The principal members of the concert group of the Offeror Group are Zhuhai Huafa and the Offeror Group.
- (b) The principal place of business of the Company in Hong Kong is at Unit D, 16/F, MG Tower, 133 Hoi Bun Road, Kwun Tong, Hong Kong and its headquarters and registered office are at No. 101, 4/F, C Yi’an Business Building, 18 Building Yi’an Jiayuan, Beiwa West, Haidian District, Beijing, the PRC.
- (c) The registered office of Zhuhai Huafa is at 9 Lian An Lu, Xiangzhou Qu, Zhuhai, the PRC.
- (d) The registered office of Zhuhai Huafa Industrial is at Unit A8, 1/F, Block 4, 153 Rong’ao Road, Hengqin New Area, Zhuhai, the PRC.
- (e) The registered office of Hong Kong Huafa is at Unit 3605, 36/F, Cheung Kong Center, 2 Queen’s Road Central, Central, Hong Kong.
- (f) The company secretary of the Company is Ms. Lam Yuk Ling.
- (g) The H Share Registrar and transfer office of the Company is at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong.

- (h) The registered office of Guotai Junan Securities and Guotai Junan Capital is at 27/F, Grand Millennium Plaza, 181 Queen's Road Central, Central, Hong Kong.
- (i) The registered office of Innovax is at Room 2002, 20/F, Chinachem Century Tower, 178 Gloucester Road, Wanchai, Hong Kong.