
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular, you should consult a stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Peking University Resources (Holdings) Company Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or other transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, 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 circular.



北大资源
PKU RESOURCES

Peking University Resources (Holdings) Company Limited
北大资源(控股)有限公司

(Incorporated in Bermuda with limited liability)

(Stock code: 00618)

**CONTINUING CONNECTED TRANSACTIONS:
2019 MASTER PURCHASE AGREEMENT AND
2019 MASTER SALES AGREEMENT**

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



建泉融資有限公司
VBG Capital Limited

A letter from the Board of Peking University Resources (Holdings) Company Limited is set out on pages 5 to 20 of this circular. A letter from the Independent Board Committee (as defined herein) of the Company is set out on pages 21 to 22 of this circular. A letter from VBG Capital Limited containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 23 to 46 of this circular.

A notice convening the special general meeting to be held at 11:30 a.m. on Thursday, 13 February 2020 at Unit 1408, 14th Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong is set out on page 54 to 55 of this circular. Whether or not you are able to attend the special general meeting, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible to the principal place of business of the Company at Unit 1408, 14th Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong and in any event not later than 48 hours before the time of the special general meeting or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the special general meeting should you so wish.

24 January 2020

CONTENTS

	<i>Page</i>
DEFINITIONS	1
LETTER FROM THE BOARD	5
LETTER FROM THE INDEPENDENT BOARD COMMITTEE	21
LETTER FROM THE INDEPENDENT FINANCIAL ADVISER	23
APPENDIX — GENERAL INFORMATION	47
NOTICE OF SGM	54

DEFINITIONS

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

“2018 Master Purchase Agreement”	a master purchase agreement dated 26 October 2018 entered into between the Company and Peking Founder in relation to purchase of various products and services
“2018 Master Sales Agreement”	a master sales agreement dated 26 October 2018 entered into between the Company and Peking Founder in relation to the supply of certain information hardware products
“2019 Distribution Agreement I”	a distribution agreement entered into by Beijing Founder Century and a manufacturer of Huawei Brand in 2019, pursuant to which Beijing Founder Century has been authorised to distribute information products of Huawei Brand in the PRC for a term from 1 July 2019 to 31 March 2020
“2019 Distribution Agreement II”	a distribution agreement entered into by Beijing Founder Century and a manufacturer of Lenovo Brand in 2019, pursuant to which Beijing Founder Century has been authorised to distribute information products of Lenovo Brand in the PRC for a term from 16 May 2019 to 31 March 2022
“2019 Master Purchase Agreement”	a master purchase agreement dated 28 November 2019 entered into between the Company and Peking Founder in relation to the purchase of certain software products, systems integration products, software development services, hardware development services and/or systems integration development services until 31 December 2022
“2019 Master Sales Agreement”	a master sales agreement dated 28 November 2019 entered into between the Company and Peking Founder in relation to the supply of certain information hardware products to Peking Founder Group until 31 December 2022
“Announcement”	the announcement made by the Company dated 28 November 2019
“associate”	has the meaning ascribed to it under the Listing Rules

DEFINITIONS

“Beijing Founder Century”	Beijing Founder Century Information System Company Limited* (北京方正世紀信息系統有限公司), a company incorporated in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company
“Board”	the board of Directors of the Company
“Company”	Peking University Resources (Holdings) Company Limited (北大資源(控股)有限公司), a company incorporated in Bermuda with limited liability, the shares of which are listed on the main board of the Stock Exchange (Stock Code: 00618)
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“controlling shareholder”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“Distribution Business”	one of the Group’s principal activities, which is mainly focused on the distribution of information products such as servers, printers, switches, networking products, storage devices, workstations, optical screen products, video conference host, conference controller, codec, UPS power supply and notebook computer of a number of internationally famed and branded information product manufacturers
“Founder Information”	Founder Information (Hong Kong) Limited (香港方正資訊有限公司), a company incorporated in Hong Kong with limited liability and a controlling shareholder of the Company
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

DEFINITIONS

“Independent Board Committee”	an independent board committee of the Company comprising all of the three independent non-executive Directors, namely Mr Li Fat Chung, Ms Wong Lam Kit Yee and Mr Chan Chung Kik, Lewis, formed for the purpose of considering the terms of the 2019 Master Purchase Agreement and the 2019 Master Sales Agreement and their Proposed Annual Caps and advising and making recommendation to the Independent Shareholders as to how to vote at the SGM
“Independent Financial Adviser”	VBG Capital Limited, a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to (i) the 2019 Master Purchase Agreement (including its annual caps for the three years ending 31 December 2022) and (ii) the 2019 Master Sales Agreement (including its annual caps for the three years ending 31 December 2022)
“Independent Shareholders”	the shareholders of the Company other than Peking Founder and its respective associates
“Latest Practicable Date”	22 January 2020, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
“Peking Founder”	北大方正集團有限公司 (Peking University Founder Group Company Limited*), a company incorporated in the PRC with limited liability
“Peking Founder Group”	Peking Founder and its subsidiaries
“PRC”	the People’s Republic of China excluding Hong Kong, the Macau Special Administrative Region and Taiwan for the purpose of this circular
“Products and Services”	certain software products, systems integration products, software development services, hardware development services and/or systems integration development services

DEFINITIONS

“Proposed Annual Caps”	the proposed annual caps for the 2019 Master Purchase Agreement and the 2019 Master Sales Agreement for each of the three years ending 31 December 2022
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	the special general meeting of the Company to be convened and held for the Independent Shareholders to consider and if thought fit, approve, (i) the 2019 Master Purchase Agreement (including its annual caps for the three years ending 31 December 2022) and (ii) the 2019 Master Sales Agreement (including its annual caps for the three years ending 31 December 2022)
“Shareholder(s)”	the shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary”	has the meaning ascribed to it under the Listing Rules
“%”	per cent.

For illustrative purpose only, RMB is converted into HK\$ at an exchange rate of RMB1=HK\$1.095 in this circular.

* *For identification purposes only*

LETTER FROM THE BOARD



北大资源
PKU RESOURCES

Peking University Resources (Holdings) Company Limited

北大资源(控股)有限公司

(Incorporated in Bermuda with limited liability)

(Stock code: 00618)

Executive Directors:

Mr Cheung Shuen Lung (*Chairman*)

Mr Zeng Gang (*President*)

Ms Sun Min

Mr Ma Jian Bin

Ms Liao Hang

Mr Zheng Fu Shuang

Independent non-executive Directors:

Mr Li Fat Chung

Ms Wong Lam Kit Yee

Mr Chan Chung Kik, Lewis

Registered Office:

Victoria Place, 5th Floor

31 Victoria Street

Hamilton HM 10

Bermuda

Principal place of business

in Hong Kong:

Unit 1408

14th Floor

Cable TV Tower

9 Hoi Shing Road

Tsuen Wan

New Territories

Hong Kong

24 January 2020

To the Shareholders

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS:
2019 MASTER PURCHASE AGREEMENT AND
2019 MASTER SALES AGREEMENT**

1. INTRODUCTION

Reference is made to the Announcement in relation to the transactions contemplated under the 2019 Master Purchase Agreement and the 2019 Master Sales Agreement.

The purpose of this circular is to provide you with, among other things, (i) details of the transactions contemplated under of the 2019 Master Purchase Agreement and the 2019 Master Sales Agreement (including their respective Proposed Annual Caps); (ii) a letter of recommendation from the Independent Board Committee to the Independent Shareholders in

LETTER FROM THE BOARD

respect of the 2019 Master Purchase Agreement and the 2019 Master Sales Agreement and their respective Proposed Annual Caps; (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the 2019 Master Purchase Agreement and the 2019 Master Sales Agreement and their respective Proposed Annual Caps; and (iv) a notice convening the SGM to the Shareholders.

As stated in the announcement of the Company dated 28 November 2019, other than the continuing connected transactions under the 2019 Master Purchase Agreement and the 2019 Master Sales Agreement, no other continuing connected transactions stated in the aforesaid announcement require the Independent Shareholders' approval. As such, no information on those other continuing connected transactions are contained in this circular.

The continuing connected transactions under the 2019 Master Purchase Agreement and the 2019 Master Sales Agreement together with the Proposed Annual Caps are disclosed as follows and the terms of each of the abovementioned agreements are as described in detail below.

2. CONNECTED RELATIONSHIP

Peking Founder is an associate of Founder Information which is the direct controlling shareholder of the Company. Therefore, Peking Founder is a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the transactions contemplated under the 2019 Master Purchase Agreement and the 2019 Master Sales Agreement will constitute continuing connected transactions for the Company pursuant to Chapter 14A of the Listing Rules.

3. THE 2019 MASTER PURCHASE AGREEMENT

Reference is made to the announcement of the Company dated 26 October 2018 in relation to the 2018 Master Purchase Agreement between the Company and Peking Founder pursuant to which the Group would purchase certain software products, systems integration products, software development services, hardware development services and/or systems integration development services from Peking Founder Group on normal commercial terms and in the ordinary course of business and a non-exclusive basis.

In order to cope with the further expansion and to achieve the growth on the distribution business of the Group, the Group would increase its purchase quantities and introduce new types of information products to its customers, particularly those information products with famous international brands. Members of the Peking Founder Group are authorised distributors of those international brands. In addition, several subsidiaries of the Group which are engaged in the business of property development and property investment in the PRC recently plan to purchase systems integration services from Peking Founder Group, so as to set up intelligent and automatic systems in the Group's properties under development. In consideration of the reasons above, the existing annual cap for 2020 set out in the 2018 Master Purchase Agreement may not be sufficient for the increasing transaction volume for the transactions under such agreement since Peking Founder Group is offering more product lines, on 28 November 2019, the Company

LETTER FROM THE BOARD

and Peking Founder entered into the 2019 Master Purchase Agreement with a term of three years for the period from 1 January 2020 to 31 December 2022 to replace the existing annual cap for 2020 under the 2018 Master Purchase Agreement, and set up annual caps for 2021 and 2022. The 2018 Master Purchase Agreement was terminated on 31 December 2019. The Group has not entered into any transaction with Peking Founder Group pursuant to the 2019 Master Purchase Agreement.

Principal Terms of the 2019 Master Purchase Agreement

Peking Founder Group would, subject to certain conditions, continue to provide the Group with certain software products, systems integration products, software development services, hardware development services and/or systems integration development services on normal commercial terms and a non-exclusive basis.

Pursuant to the 2019 Master Purchase Agreement, the Group will purchase such products at market prices determined at the relevant time (i) with reference to the prices and credit terms at which such products are supplied, on normal commercial terms in its ordinary and usual course of business, to independent third party customers in the local market and/or adjacent regions; or (ii) where no comparables as stated in (i) are available, with reference to the prices and credit terms at which such products are supplied, on normal commercial terms in its ordinary and usual course of business, to independent third party customers in the PRC; or (iii) where none of the above comparables is available, with reference to the reasonable prices and credit terms agreed between the parties on an arm's length basis.

The market prices of most such products were determined with reference to the pre-fixed selling prices, if any, provided by the world-wide renowned manufactures as mentioned above, which the Directors, after assessing the Group's overall bargaining power, believe that it would continue to make reference to. In addition, the purchase procedure that the Group adopts to purchase such products from all the suppliers, being that the Peking Founder Group or independent third parties, are the same. To determine the credit terms of the 2019 Master Purchase Agreement, the Group adopted the same procedure as in any purchase transaction involving the Group to determine the credit terms upon comparison of the respective credit terms provided by other potential suppliers in the market. The Group will sign the standardised contract with the relevant suppliers. The procurement management, finance, legal and other relevant departments of the Group will use the same assessment criteria to review and approve the 2019 Master Purchase Agreement, and ensure that the Group uses the same procedures to make the payment under the 2019 Master Purchase Agreement.

To further ensure that the terms including the price offered by Peking Founder Group to the Group will be no less favourable than those offered by third party vendors, before entering into any purchase transactions with Peking Founder Group, the purchasing department of the Group will obtain quotations from at least three suppliers (including the one from Peking Founder Group) and then perform assessment based on several criteria.

LETTER FROM THE BOARD

The selection will be based on the assessment on a totality basis including, price, technology, qualification of the suppliers, delivery time, payment terms and quality standard etc. from the quotations. The Group will only enter into a purchase transaction with Peking Founder Group if the overall assessment results shows that the terms offered by Peking Founder Group are no less favourable than those offered by third party vendors.

Thus, in the view of the adoption of the market prices and the same procedures, including the procedure to determine the credit terms, as aforesaid, the Group is of the opinion that the transactions contemplated under the 2019 Master Purchase Agreement will be conducted on normal commercial terms and are not prejudicial to the interests of the Group and its minority Shareholders.

The terms of the 2019 Master Purchase Agreement will become effective from 1 January 2020 and will expire on 31 December 2022. The 2019 Master Purchase Agreement, or any contract signed pursuant to the 2019 Master Purchase Agreement, can be terminated by 30 days' notice in writing by either party.

Annual Caps

Historical Transaction Amounts and Proposed Caps

The historical figures, the historical annual caps and the Proposed Annual Caps in respect of the 2019 Master Purchase Agreement are as follows:

	Year ended 31 December 2017	Year ended 31 December 2018	Six months ended 30 June 2019	Year ended 31 December 2019	Year ending 31 December 2020	Year ending 31 December 2021	Year ending 31 December 2022
Historical Figures							
<i>RMB million</i>	56	16	9	N/A	N/A	N/A	N/A
<i>(approximately)</i>							
<i>HK\$ million</i>	61	18	10	N/A	N/A	N/A	N/A
<i>(approximately)</i>							
Historical Annual Caps							
<i>RMB million</i>	350	30	N/A	30	30	N/A	N/A
<i>(approximately)</i>							
<i>HK\$ million</i>	383	33	N/A	33	33	N/A	N/A
<i>(approximately)</i>							
Proposed Annual Caps							
<i>RMB million</i>	N/A	N/A	N/A	N/A	100	100	100
<i>(approximately)</i>							
<i>HK\$ million</i>	N/A	N/A	N/A	N/A	110	110	110
<i>(approximately)</i>							

LETTER FROM THE BOARD

The Proposed Annual Caps have been determined with reference to the historical purchase pattern and expected total value of the transactions between the Group and Peking Founder Group under the 2019 Master Purchase Agreement. In particular, the Directors have taken into account the expected increase in the Group's demand for Products and Services for the purpose of carrying out its Distribution Business and the business of property development and property investment, details of which are set out below:

(i) *Distribution Business*

Despite the commencement of the distribution agreement with the manufacturer of Lenovo Brand in October 2017, there has been a decrease in the historical purchase amount for the year ended 31 December 2018 and the six months ended 30 June 2019 as compared to the year ended 31 December 2017 as the historical purchase amount was limited by the annual caps for the year ended 31 December 2018 and year ended 31 December 2019 under the 2018 Master Purchase Agreement, which were RMB30 million (equivalent to approximately HK\$33 million) each year. Due to the limit in the annual caps for the two years ended 31 December 2019 and the fact that the Group entered into the 2019 Distribution Agreement I in July 2019, the Group was not able to purchase sufficient Products and Services from the Peking Founder Group. The historical transaction amounts with the Peking Founder Group therefore do not reflect the transaction amounts under the 2019 Distribution Agreement I and the distribution agreements with Lenovo and do not reasonably reflect the future needs of the Group in respect of the purchase of Products and Services from the Peking Founder Group.

Beijing Founder Century, an indirect wholly-owned subsidiary of the Company, entered into the 2019 Distribution Agreement I with a manufacturer of Huawei Brand in 2019, pursuant to which Beijing Founder Century has been authorised to distribute information products of Huawei Brand such as data communication, security, storage, intelligent computing and other hardware and devices for distribution, erection implementation, cloud computing, system integration systems in the PRC for a term of nine months. Furthermore, Beijing Founder Century entered into the distribution agreement with manufacturer of Lenovo Brand in October 2017 and renewed the agreement periodically. Pursuant to the 2019 Distribution Agreement II entered with a manufacturer of Lenovo Brand in 2019, Beijing Founder Century has been authorised to distribute information products of Lenovo Brand such as PCs, monitors, servers and hardware and devices for distribution and erection implementation in the PRC for a term from 16 May 2019 to 31 March 2022. As such, the Group has been authorised to introduce additional information products for its Distribution Business. In view of the demand of enterprise digitalization in the PRC, Beijing Founder Century intends to provide integrated products and services to meet the demand of customers in addition to distribution of hardware products. As the information products of Huawei Brand and Lenovo Brand are mainly hardware and devices which require software and technical supports, the Group will need to procure additional software products, systems integration products, software development services, hardware development services and/or systems integration development services from its suppliers, including

LETTER FROM THE BOARD

the Peking Founder Group, which members of Peking Founder Group are the only/main authorised distributors of certain brands of the Products and Services (“**Usage of Products**”). As the Group is not the authorised distributor or agent of the Products and Services, it is not able to directly purchase the Products and Services from the manufacturers for its Distribution Business.

Since the 2019 Distribution Agreement I was entered into on 1 July 2019, more information products are available to be offered and also more Usage of Products are required, which resulted in a significant increase in the purchase amount of Huawei brand and other brands by approximately RMB551 million and RMB119 million respectively during July to November 2019 (the “**Purchase Increment**”) as compared with the corresponding period in 2018 which indicated that there was and would be an increase in demand of Products and Services. The management of the Group considered that since Beijing Founder Century only entered into the 2019 Distribution Agreement I in July 2019, the purchase of Products and Services for Huawei brand was not material. The management reviewed material purchase order under the Purchase Increment of other brands and approximately 25% of the amount of products in those purchase orders can be purchased from Peking Founder Group. The Group estimates that approximately 25% of the increase in purchase of other brands may be required to be provided by Peking Founder Group (the “**Forecast Percentage**”) which is assumed to be maintained during the three years ending 31 December 2022. As such, the Group purchased additional Products and Services from its suppliers and the Directors foresee the need to increase the proposed annual caps to capture the business opportunities. Based on the Purchase Increment of approximately RMB119 million during July to November 2019 and the Forecast Percentage of approximately 25%, the estimated purchase from Peking Founder Group for the year ended 31 December 2019 is approximately RMB71.4 million. Despite information communication technology is becoming more popular in the PRC, the Directors based on the market information and assume the possible decline in purchase amount. As in the article “Market Monitor ICT China 2019” about market monitor of PRC information communication technology market (the “**ICT Market**”) released on 18 June 2019 by Atradius N.V., it states that the competition in the ICT market is facing domestic and external challenges. According to the article “Building and Training Sales Army in the ICT Industry” about the ICT market released on 25 April 2019 by Niutoushe (Beijing) Network Technology Co. Ltd.* (崔牛(北京)網絡科技有限公司), it also states that the competition in the ICT market remains to be fierce as the competition is not just against foreign brands such as Cisco, but also domestic brands such as Inspur. Thus, for prudent sake, the Directors made a fair and reasonable assumption that, the estimated purchase from Peking Founder Group for the three years ending 31 December 2022 is slightly reduced to approximately RMB70 million, RMB60 million and RMB50 million respectively.

LETTER FROM THE BOARD

(ii) Business of Property Development and Property Investment

As intelligent systems are now commonly installed in new developed properties in the PRC, several subsidiaries of the Group which are engaged in the business of property development and property investment in the PRC recently plan to purchase systems integration services from Peking Founder Group, so as to keep up with the competitive market and set up intelligent and automatic systems in the Group's properties under development. The intelligent system mainly includes the installation and construction of video intercom system, patrol system, background music system, five-party intercom system, video surveillance system, side-gate system and infrared radio beam system.

When the subsidiaries of the Group which are engaged in the business of property development and property investment purchase intelligent systems, they use the bidding method for the selection of suppliers. The selection will be made based on assessment on a totality basis including price, technology and qualification of the suppliers. As Peking Founder Group has strong experience and offers good technology in the intelligent systems industry, it had won the previous bids in the past years.

The purchase of automatic and intelligent systems by the Group from Peking Founder Group during the six months ended 30 June 2018 and the year ended 31 December 2018 are approximately RMB5.8 million and RMB16.2 million respectively, thus the Group assumes the seasonal effect is 0.36 (proportion of purchase in the first half of the year to that of the year). The seasonal effect represents the business fluctuation based on particular season, in which due to more holidays during the Chinese New Year from January to February, resulting to less purchase during the first half of the year as compared with that in the second half of the year. Based on the purchase amount of automatic and intelligent systems by the Group from Peking Founder Group during the six months ended 30 June 2019 of approximately RMB9.0 million and the seasonal effect of 0.36 (proportion of purchase in the first half of the year to that of the year), the estimated purchase amount during the year ended 31 December 2019 is approximately RMB25 million.

During the six months ended 30 June 2019, the Group had 13 property development projects which required the installation of automatic and intelligent systems in residential and commercial properties in the PRC. The average price for the systems in each project is approximately RMB1.5 million. Due to the expansion of property development business, the growth of sales of property development business for the six months ended 30 June 2019 as compared with that of the same period in 2018 is around 30%. The Group expects the growth is similar in the future years. We assume the forecast growth rate of around 30% can be maintained for the three years ending 31 December 2022 with reference to the existing projects on hand and future development plan.

LETTER FROM THE BOARD

Based on the estimated purchase amount of approximately RMB25 million during the year ended 31 December 2019 and the forecast growth rate of around 30%, the Group expects the purchase for the three years ending 31 December 2022 are approximately RMB30 million, RMB40 million and RMB50 million respectively.

In view of this, it is also expected that the purchase amount of Products and Services by the Group from Peking Founder Group for carrying out the business of property development and property investment will increase in the future.

The Directors (excluding all independent non-executive Directors whose views will be based on the opinion of the Independent Financial Adviser) are of the view that the above estimation is fair and reasonable.

Reasons for and benefits of the 2019 Master Purchase Agreement

As Peking Founder Group has various business contracts with the Group and is familiar with the Group's product and service specifications, it is able to respond quickly and in a cost effective manner to any new specifications that the Group may from time to time request.

The Directors (excluding all independent non-executive Directors whose views will be based on the opinion of the Independent Financial Adviser) are of the view that the transactions under the 2019 Master Purchase Agreement are fair and reasonable, on normal commercial terms, in the ordinary and usual course of business of the Group and in the interests of the Company and its Shareholders as a whole and that the Proposed Annual Caps for the transactions contemplated under the 2019 Master Purchase Agreement are fair and reasonable.

As Mr Cheung Shuen Lung is concurrently serving as a director of Peking Founder, he has abstained from voting on the resolutions approving the 2019 Master Purchase Agreement at the Board meeting of the Company. Save as disclosed above, none of the Directors have any material interest in the transactions contemplated under the 2019 Master Purchase Agreement.

4. THE 2019 MASTER SALES AGREEMENT

Reference is made to the announcement of the Company dated 26 October 2018 in relation to the 2018 Master Sales Agreement between the Company and Peking Founder pursuant to which the Group would supply certain information products (including but not limited to desktop computers, laptop computers, servers, networking tools, internet products, monitors and software, etc.) to Peking Founder Group on normal commercial terms and in the ordinary course of business and a non-exclusive basis.

As the existing annual cap for 2020 set out in the 2018 Master Sales Agreement may not be sufficient for the increasing transaction volume for the transactions under such agreement, on 28

LETTER FROM THE BOARD

November 2019, the Company and Peking Founder entered into the 2019 Master Sales Agreement with a term of three years for the period from 1 January 2020 to 31 December 2022 to replace the existing annual cap for 2020 under the 2018 Master Sales Agreement, and set up annual caps for 2021 and 2022. The 2018 Master Sales Agreement was terminated on 31 December 2019. The Group has not entered into any transaction with Peking Founder Group pursuant to the 2019 Master Sales Agreement.

Principal Terms of the 2019 Master Sales Agreement

The Group would, subject to certain conditions, continue to provide Peking Founder Group with certain information products (including but not limited to desktop computers, laptop computers, servers, networking tools, internet products, monitors and software, etc.) on normal commercial terms and a non-exclusive basis.

Pursuant to the 2019 Master Sales Agreement, the Group will provide such information products at market prices determined at the relevant time (i) with reference to the prices and credit terms at which such information hardware products are supplied, on normal commercial terms in its ordinary and usual course of business, to independent third party customers in the local market and/or adjacent regions; or (ii) where no comparables as stated in (i) are available, with reference to the prices and credit terms at which such information hardware products are supplied, on normal commercial terms in its ordinary and usual course of business, to independent third party customers in the PRC; or (iii) where none of the above comparables is available, with reference to the reasonable prices and credit terms agreed between the parties on an arm's length basis.

When determining the market prices for the sale of such information hardware products, the Group took into account mainly the prices, if any, as provided by the manufacturers. The prices provided by the manufacturers for such information hardware products are guideline prices with profit margin which are updated half-yearly/quarterly or guideline prices provided by manufacturers when they introduce customers to the Group, known as the as-required basis. There is no specific product type with guidelines price updated half yearly or yearly. The guideline prices set by the manufacturers are adjusted based on the market demand, manufacturers' and their competitors' business strategies, customer type and contract size. The Group considered the service and costs (i.e. the manufacturer's cost) and mark-up accordingly at the market standard range of approximately 1–4%, with the average mark-up percentage of approximately 2.7%. As the Directors have compared the profit margin mark-up range of Beijing Founder Century with the profit margin of its competitors based on their financial reports, they consider that the mark-up range of approximately 1–4% is in line with the market. The determination of the credit terms was made with reference to the market practice, usually 45 to 90 days, depending on whether the customer is an agent or an integration system provider. The Company will adopt the same pricing formula and credit term determination mechanism applicable to all customers including Peking Founder Group and independent third parties. Other than the above, the sales procedure that the Group adopt to supply such products to all customers, be that Peking Founder Group or independent third parties, are the same. The

LETTER FROM THE BOARD

Group will sign the standardised contract with Peking Founder Group. The sales management, finance, legal and other relevant departments will use the same assessment criteria to review and approve the 2019 Master Sales Agreement, and ensure that the Group uses the same procedures to issue invoices.

Thus, in the view of the adoption of the market prices and the same procedures as aforesaid, the Group is of the opinion that the transactions contemplated under the 2019 Master Sales Agreement will be conducted on normal commercial terms and are not prejudicial to the interests of the Group and its minority Shareholders.

The terms of the 2019 Master Sales Agreement will become effective from 1 January 2020 and will expire on 31 December 2022. The 2019 Master Sales Agreement, or any contract signed pursuant to the 2019 Master Sales Agreement, can be terminated by 30 days' notice in writing by either party.

Annual Caps

Historical Transaction Amounts and Proposed Caps

The historical figures, the historical annual caps and the Proposed Annual Caps in respect of the 2019 Master Sales Agreement are as follows:

	Year ended 31 December 2017	Year ended 31 December 2018	Six months ended 30 June 2019	Year ended 31 December 2019	Year ending 31 December 2020	Year ending 31 December 2021	Year ending 31 December 2022
Historical Figures							
<i>RMB million</i>	148	27	3	N/A	N/A	N/A	N/A
<i>(approximately)</i>							
<i>HK\$ million</i>	162	30	3	N/A	N/A	N/A	N/A
<i>(approximately)</i>							
Historical Annual Caps							
<i>RMB million</i>	1,000	30	N/A	30	30	N/A	N/A
<i>(approximately)</i>							
<i>HK\$ million</i>	1,095	33	N/A	33	33	N/A	N/A
<i>(approximately)</i>							
Proposed Annual Caps							
<i>RMB million</i>	N/A	N/A	N/A	N/A	1,000	1,000	1,000
<i>(approximately)</i>							
<i>HK\$ million</i>	N/A	N/A	N/A	N/A	1,095	1,095	1,095
<i>(approximately)</i>							

LETTER FROM THE BOARD

The Proposed Annual Caps have been determined with reference to the historical monthly sales volume and expected purchases estimated by Peking Founder Group under the 2019 Master Sales Agreement.

Beijing Founder Century, an indirect wholly-owned subsidiary of the Company, entered into the 2019 Distribution Agreement I with a manufacturer of Huawei Brand in 2019, pursuant to which Beijing Founder Century has been authorised to distribute information products of Huawei Brand such as data communication, security, storage, intelligent computing and other hardware and devices for distribution, erection implementation, cloud computing, system integration systems in the PRC for a term of nine months. Beijing Founder Century has the intention to renew the 2019 Distribution Agreement I upon the expiry of its term. Beijing Founder Century does not expect there is any material condition to be fulfilled by it for such renewal. With its expanding distribution business, Huawei has a high demand for engineering expertise, technical support and systems. Hence, the Directors believe that the risk for discontinuation of the 2019 Distribution Agreement I is low and the estimation of annual caps under the 2019 Master Sales Agreement should not be affected. Even if the 2019 Distribution Agreement I is not renewed, the Group may distribute other products such as H3C and Dell, which also have high demand for software and technical supports. Therefore, the Directors expect the termination of 2019 Distribution Agreement I would not have any material effect on the estimation of annual caps. Furthermore, Beijing Founder Century entered into the 2019 Distribution Agreement II with a manufacturer of Lenovo Brand in 2019, pursuant to which Beijing Founder Century has been authorised to distribute information products of Lenovo Brand such as PCs, monitors, servers and hardware and devices for distribution and erection implementation in the PRC for a term from 16 May 2019 to 31 March 2022. As such, the Group will have a higher capacity to offer information products to its customers, including Peking Founder Group which purchases information products for its customers to set up computer systems. Despite its increased capacity to offer information products, the Group was not able to capture the demand from Peking Founder Group of approximately RMB600 million (a relatively large-scale systems integration project relating to the distribution of large-scale workstations) in October 2019 due to the insufficient annual cap of RMB30 million under the 2018 Master Sales Agreement. The tender of that project was expected to be completed within one month and the delivery of information products will be completed within one to three months after the tender is confirmed. No agreement was signed between Beijing Founder Century and Peking Founder Group as Beijing Founder Century gave up to enter into the tender stage in view of the insufficient annual cap. Even though the tender of that project did not proceed, Beijing Founder Century entered into sales agreement of approximately RMB399 million with a single customer for supply of information products such as H3C servers and workstations, the commonly used products in system integration projects of Peking Founder Group in the past (the “**Past Transactions**”) showing that Beijing Founder Century had the capacity to fulfill large-scale sales agreement, Peking Founder Group has demand for such products and there is demand of large-scale workstations in the PRC. Directors are of the view that Past Transactions are related to the expected sales amount to the Peking Founder Group. Peking Founder Group obtained a large-scale system integration sales contract to sell Huawei products of

LETTER FROM THE BOARD

approximately RMB860 million in August 2018 and intends to sell Huawei products to the same customer in another large-scale system integration project of approximately RMB2.0 billion for the year of 2020. It is expected that Beijing Founder Century would be invited to meet the partial purchase demand of Peking Founder Group in such project. There is further demand from Peking Founder Group on Huawei products for another large-scale system integration project of approximately RMB1.5 billion for the year of 2020 and it is expected that Beijing Founder Century would be invited to partially supply Huawei products to address such additional demand. Based on the past demand of Peking Founder Group for large-scale projects and the estimation of stable future demand of large-scale workstations in the PRC market, the Group is expected to work with the Peking Founder Group on one to two large-scale project(s) with the range from approximately RMB500 million to RMB1.2 billion each per year. The total average amount of transactions is approximately RMB1 billion per year. Thus, in projecting the total amount of transactions between the Group and Peking Founder Group to determine the Proposed Annual Caps under the 2019 Master Sales Agreement, the Directors have taken into account such sale opportunities from Peking Founder Group which had not been fully realised by the Group during the year ended 31 December 2019.

Accordingly, the Directors believe that there will be a substantial increase in the sales amount of information products of the Group to Peking Founder Group for the three years ending 31 December 2022.

Reasons for and benefits of the 2019 Master Sales Agreement

Peking Founder Group has been purchasing information products for its customers to set up computer systems, and provide software solutions to its clients. The Board considers that it is beneficial to the Group to supply information products to Peking Founder Group on normal commercial terms, thus broadening its customer and revenue base. The Board considers that the terms of the 2019 Master Sales Agreement were arrived at after arm's length negotiations between the parties involved. The 2019 Master Sales Agreement was entered into in the ordinary and usual course of business of the Group.

The Directors (excluding all independent non-executive Directors whose views will be based on the opinion of the Independent Financial Adviser) are of the view that the transactions under the 2019 Master Sales Agreement are fair and reasonable, on normal commercial terms, in the ordinary and usual course of business of the Group and in the interests of the Company and its Shareholders as a whole and that the Proposed Annual Caps for the transactions contemplated under the 2019 Master Sales Agreement are fair and reasonable.

As Mr Cheung Shuen Lung is concurrently serving as a director of Peking Founder, he has abstained from voting on the resolutions approving the 2019 Master Sales Agreement at the Board meeting of the Company. Save as disclosed above, none of the Directors have any material interest in the transactions contemplated under the 2019 Master Sales Agreement.

LETTER FROM THE BOARD

5. INTERNAL CONTROL PROCEDURES AND CORPORATE GOVERNANCE MEASURES

Before entering into any implementation agreements under the 2019 Master Purchase Agreement and the 2019 Master Sales Agreement, the following will be adopted by the Company to ensure that (i) the transactions will be conducted in accordance with the terms under the 2019 Master Purchase Agreement and the 2019 Master Sales Agreement; (ii) in compliance with the terms offered by the relevant connected parties to the Group are no less favourable than those available from independent third parties, and the terms offered by the Group to relevant connected parties are not more favourable than that offered to independent third parties (if any); and (iii) in compliance with the Listing Rules:

- Before entering into sales transaction, the Group took into account mainly the pre-fixed prices as provided by the manufacturers in determining the market prices for the sale of such information hardware products. The Group adopted the same pricing formula and credit term determination mechanism applicable to all customers including connected parties and independent third parties.

The market prices of the information products were determined with reference to the pre-fixed selling prices provided by the world-wide renowned manufacturers. The purchase procedure that the Group adopts to purchase information products from all the suppliers, be that the Peking Founder Group or independent third parties, are the same. The Group signed the standardised contracts with the relevant suppliers. The procurement management, finance, legal and other relevant departments used the same assessment criteria to review and approve the purchase agreements;

- The Group's finance department will also collect statistics of each of the transactions contemplated under the 2019 Master Purchase Agreement and the 2019 Master Sales Agreement, on a monthly basis to ensure the Proposed Annual Caps to be approved by the Independent Shareholders are not exceeded;
- The independent non-executive Directors will review the interim and annual financial reports and which contain the information on the implementation of the continuing connected transactions. They will give their views on the continuing connected transactions, mainly including whether the continuing connected transactions are fair and reasonable, and whether the actual transaction amounts incurred by the continuing connected transactions are within the approved Proposed Annual Caps; and
- The external auditor of the Company will conduct an annual audit each year, and review the implementation of the continuing connected transactions by the Company, including whether the actual transaction amounts incurred by the continuing connected transactions are within the Proposed Annual Caps during the year pursuant to the requirements of the Listing Rules.

LETTER FROM THE BOARD

Through the adoption of the above internal control procedures and corporate governance measures, the Directors believe that it will provide safeguard to supervise and monitor (i) compliance of the terms offered by the relevant connected parties to the Group, and the terms offered by the Group to relevant connected parties will be on market terms and on normal commercial terms and will be fair and reasonable to the Company and in the interest of the Shareholders as a whole; and (ii) the Proposed Annual Caps to be approved by the Independent Shareholders that will be adhered to and the continuing connected transactions will be conducted within the approved Proposed Annual Caps during the relevant year pursuant to the requirements under Listing Rules.

6. INFORMATION OF THE PARTIES

The Group is principally engaged in distribution of information products in Hong Kong and the PRC, property development and property investment in the PRC.

Peking Founder is an associate of Founder Information which is the direct controlling shareholder of the Company. As at the Latest Practicable Date and as at the date of this circular, according to the information available to the Company from the records of the State Administration for Market Regulation, the majority shareholder of Peking Founder is Peking University Assets Management Company Limited* (北大資產經營有限公司) with 70% shareholding and is principally engaged in the business in relation to the acceptance for entrusted operation and management of state-owned assets, technology promotion, technical services, technical consultation, incubation of high-tech enterprises, investment management and asset management in the PRC. The registered holder of the remaining shareholding of Peking Founder is Beijing Zhaorun Investments Management Co. Ltd.* (北京招潤投資管理有限公司), while its registered shareholders are Mr Li You, Ms Yu Li, Mr Wei Xin and Mr Zhang Zhao Dong.

Founder Information is an investment holding company. Peking Founder Group is principally engaged in sales of computer hardware and software and related equipment, communications equipment, instrumentation, office automation equipment; sales of electronic products, self-developed products, computers, software and auxiliary equipment as well as investment management.

7. LISTING RULES IMPLICATIONS

As at the date of this circular, Peking Founder is an associate of Founder Information which is the direct controlling shareholder of the Company. Therefore, Peking Founder is a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the transactions contemplated under the 2019 Master Purchase Agreement and the 2019 Master Sales Agreement will constitute continuing connected transactions for the Company pursuant to Chapter 14A of the Listing Rules.

Since one or more of the applicable percentage ratios pursuant to Rule 14.07 of the Listing Rules for the transactions contemplated under the 2019 Master Purchase Agreement and the

LETTER FROM THE BOARD

2019 Master Sales Agreement exceed 5% and the consideration for each of the above transactions exceed HK\$10,000,000, each of the transactions contemplated under the 2019 Master Purchase Agreement and the 2019 Master Sales Agreement constitute non-exempt continuing connected transactions for the Company and are subject to the reporting, annual review, announcement and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

8. SGM

A notice convening the SGM to be held at 11:30 a.m. on Thursday, 13 February 2020 at Unit 1408, 14th Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong is set out on pages 54 to 55 of this circular for the purpose of considering and, if thought fit, passing the ordinary resolutions in relation to the 2019 Master Purchase Agreement and the 2019 Master Sales Agreement and their Proposed Annual Caps. Founder Information is required to abstain from voting with respect to the resolutions for approving the 2019 Master Purchase Agreement and the 2019 Master Sales Agreement and their Proposed Annual Caps. Save as disclosed above, no other shareholder has any material interest in the 2019 Master Purchase Agreement and the 2019 Master Sales Agreement or is required to abstain from voting at the SGM.

The ordinary resolutions to be proposed at the SGM will be determined by way of poll by the Independent Shareholders. Founder Information held 3,850,134,407 issued shares of the Company and controlled the voting rights of such shares, representing approximately 60.01% of the issued share capital of the Company as at the Latest Practicable Date, is required to abstain from voting at the SGM in respect of the ordinary resolutions. Save as disclosed above, to the best knowledge of the Directors having made all reasonable enquiries, no other Shareholders are interested in the 2019 Master Purchase Agreement and the 2019 Master Sales Agreement and required to abstain from voting. A form of proxy for use at the SGM is enclosed with this circular. Whether or not you are able to attend the SGM, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return the same as soon as possible to the principal place of business of the Company at Unit 1408, 14th Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong and in any event not less than 48 hours before the time scheduled for the holding of the SGM or any adjournments thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournments thereof should you so desire.

9. CLOSURE OF REGISTER OF MEMBERS

For the purpose of determination of entitlement to attend and vote at the SGM to be held on Thursday, 13 February 2020, the register of members of the Company will be closed from Tuesday, 11 February 2020 to Thursday, 13 February 2020 (both days inclusive), during which period no transfer of shares of the Company will be registered. In order to qualify for attending and voting at the SGM, all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in

LETTER FROM THE BOARD

Hong Kong, Tricor Tengis Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Monday, 10 February 2020.

10. RECOMMENDATION

The Independent Board Committee, which comprises all three independent non-executive Directors, has been established to advise the Independent Shareholders in connection with the terms of the transactions contemplated under the 2019 Master Purchase Agreement and the 2019 Master Sales Agreement (including the Proposed Annual Caps for the three years ending 31 December 2022).

VBG Capital Limited has been appointed to advise the Independent Board Committee and the Independent Shareholders respectively on the 2019 Master Purchase Agreement and the 2019 Master Sales Agreement (including the Proposed Annual Caps for the three years ending 31 December 2022).

The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser, is of the view that the transactions contemplated under the 2019 Master Purchase Agreement and the 2019 Master Sales Agreement are on normal commercial terms and in the ordinary and usual course of business of the Group, and that the terms of the transactions contemplated under the 2019 Master Purchase Agreement and the 2019 Master Sales Agreement and the Proposed Annual Caps for the three years ending 31 December 2022 are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the ordinary resolutions set out in the notice of SGM enclosed to this circular.

11. GENERAL

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

Yours faithfully,
By Order of the Board
Peking University Resources (Holdings) Company Limited
Cheung Shuen Lung
Chairman

* *For identification purposes only*



北大資源
PKU RESOURCES

Peking University Resources (Holdings) Company Limited

北大資源(控股)有限公司

(Incorporated in Bermuda with limited liability)

(Stock code: 00618)

24 January 2020

To the Independent Shareholders

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS:
2019 MASTER PURCHASE AGREEMENT AND
2019 MASTER SALES AGREEMENT**

We refer to the circular dated 24 January 2020 issued by the Company (the “**Circular**”) of which this letter forms part. Terms used in this letter shall bear the same meanings as given to them in the Circular unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee to consider the 2019 Master Purchase Agreement and the 2019 Master Sales Agreement (including the respective Proposed Annual Caps for the three years ending 31 December 2022) which require approval by the Independent Shareholders and to advise the Independent Shareholders as to the fairness and reasonableness of the terms of the transactions contemplated under the 2019 Master Purchase Agreement and the 2019 Master Sales Agreement and to recommend how the Independent Shareholders should vote at the SGM. VBG Capital Limited has been appointed to advise us, the Independent Board Committee in relation to the 2019 Master Purchase Agreement and the 2019 Master Sales Agreement (including the respective Proposed Annual Caps for the three years ending 31 December 2022).

We wish to draw your attention to the letter from the Board, as set out on pages 5 to 20 of the Circular, and the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders containing its advice in respect of the 2019 Master Purchase Agreement and the 2019 Master Sales Agreement (including the respective Proposed Annual Caps for the three years ending 31 December 2022), as set out on pages 23 to 46 of the Circular.

Having taken into account the principal factors and reasons considered by the Independent Financial Adviser and its conclusion and advice, we consider that the transactions contemplated under the 2019 Master Purchase Agreement and the 2019 Master Sales Agreement are on normal

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

commercial terms and in the ordinary and usual course of business of the Group, and that the terms of the transactions contemplated under the 2019 Master Purchase Agreement and the 2019 Master Sales Agreement and the respective Proposed Annual Caps for the three years ending 31 December 2022 are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the SGM to approve the transactions contemplated under the 2019 Master Purchase Agreement and the 2019 Master Sales Agreement and the respective Proposed Annual Caps of such transactions for the three years ending 31 December 2022.

Yours faithfully,
Independent Board Committee

Li Fat Chung
*Independent non-executive
Director*

Wong Lam Kit Yee
*Independent non-executive
Director*

Chan Chung Kik, Lewis
*Independent non-executive
Director*

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of the letter of advice from VBG Capital Limited to the Independent Board Committee and the Independent Shareholders of Peking University Resources (Holdings) Company Limited in respect of the 2019 Master Purchase Agreement and the 2019 Master Sales Agreement and the transactions contemplated thereunder for the purpose of inclusion in this circular.



建泉融資有限公司
VBG Capital Limited

18/F, Prosperity Tower
39 Queen's Road Central
Hong Kong

24 January 2020

*To: The Independent Board Committee and the Independent Shareholders
of Peking University Resources (Holdings) Company Limited*

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS: 2019 MASTER PURCHASE AGREEMENT AND 2019 MASTER SALES AGREEMENT

INTRODUCTION

We refer to our engagement as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders of Peking University Resources (Holdings) Company Limited in respect of the 2019 Master Purchase Agreement and the 2019 Master Sales Agreement and the transactions contemplated thereunder, as well as the Proposed Annual Caps, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular (the “**Circular**”) of the Company to the Shareholders dated 24 January 2020, of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

Reference is made to the announcement of the Company dated 26 October 2018 in relation to the continuing connected transactions contemplated under the 2018 Master Purchase Agreement and the 2018 Master Sales Agreement entered into between the Company and Peking Founder. As stated in the Letter from the Board, as the Directors consider that the existing annual caps for 2020 as set out in the 2018 Master Purchase Agreement and the 2018 Master Sales Agreement may not be sufficient for the increasing transaction volume for the transactions under such agreements, on 28 November 2019, the Company and Peking Founder entered into the 2019 Master Purchase Agreement and the 2019 Master Sales Agreement with a term of three years for the period from 1 January 2020 to 31 December 2022 to replace the existing annual caps for 2020 under the 2018 Master Purchase Agreement and the 2018 Master Sales Agreement, and set up annual caps for 2021 and 2022 for each of the 2019 Master Purchase Agreement and the 2019 Master Sales Agreement. Both the 2018 Master Purchase Agreement and the 2018 Master Sales Agreement were terminated on 31 December 2019. The Group has not entered into

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

any transaction with Peking Founder Group pursuant to the 2019 Master Purchase Agreement and the 2019 Master Sales Agreement.

As at the date of the Circular, Peking Founder is an associate of Founder Information which is the direct controlling shareholder of the Company. For detailed information relating to Peking Founder, please refer to the relevant section in the Letter from the Board. Therefore, Peking Founder is a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the transactions contemplated under the 2019 Master Purchase Agreement and the 2019 Master Sales Agreement will constitute continuing connected transactions for the Company pursuant to Chapter 14A of the Listing Rules. Since one or more of the applicable percentage ratios pursuant to Rule 14.07 of the Listing Rules for the transactions contemplated under the 2019 Master Purchase Agreement and the 2019 Master Sales Agreement exceed 5% and the consideration for each of the above transactions exceed HK\$10,000,000, each of the transactions contemplated under the 2019 Master Purchase Agreement and the 2019 Master Sales Agreement constitute non-exempt continuing connected transactions for the Company and are subject to the reporting, annual review, announcement and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. Founder Information is required to abstain from voting with respect to the resolutions for approving the 2019 Master Purchase Agreement and the 2019 Master Sales Agreement and their Proposed Annual Caps. Save as disclosed above, no other Shareholder has any material interest in the 2019 Master Purchase Agreement and the 2019 Master Sales Agreement or is required to abstain from voting at the SGM.

An Independent Board Committee comprising Mr Li Fat Chung, Ms Wong Lam Kit Yee and Mr Chan Chung Kik, Lewis (all being independent non-executive Directors) has been formed to advise the Independent Shareholders as to the fairness and reasonableness of the terms of the transactions contemplated under the 2019 Master Purchase Agreement and the 2019 Master Sales Agreement and to recommend how the Independent Shareholders should vote at the SGM. We, VBG Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the 2019 Master Purchase Agreement and the 2019 Master Sales Agreement (including the respective Proposed Annual Caps).

OUR INDEPENDENCE

As at the Latest Practicable Date, apart from the existing engagement in connection with the 2019 Master Purchase Agreement and the 2019 Master Sales Agreement, we did not have any relationship with or interest in the Company, Peking Founder or any other parties that could reasonably be regarded as relevant to our independence. In the past two years, we have not provided any financial advisory services to the Company, Peking Founder or any other parties that could reasonably be relevant to our independence. Apart from normal professional fees in connection with the engagement as the Independent Financial Adviser, no other arrangements exist whereby we had received or will receive any fees or benefits from the Company or any other parties that could reasonably be regarded as relevant to our independence. As such, we consider that we are independent pursuant to Rule 13.84 of the Listing Rules.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

BASIS OF OUR ADVICE

In arriving at our recommendation, we have relied on the statements, information, opinions and representations contained in the Circular and the information, representations and opinions provided to us by the Directors and the management of the Group. We have assumed that all statements, information, opinions and representations contained or referred to in the Circular and all information, representations and opinions which have been provided by the Directors and the management of the Group for which they are solely responsible, are true and accurate at the time they were made and will continue to be accurate at the date of the despatch of the Circular.

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

In formulating our opinion, we consider that we have been provided with sufficient information on which to form a reasonable basis for our opinion, and we have discussed with the management of the Group so as to assess the fairness and reasonableness of the terms of the 2019 Master Purchase Agreement and the 2019 Master Sales Agreement as well as the respective Proposed Annual Caps. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any fact or circumstance which would render the information provided and representations and opinions made to us untrue, inaccurate or misleading. Having made all reasonable enquiries, the Directors have further confirmed that, to the best of their knowledge, they believe there are no other information or representations the omission of which would make any statements in the Circular, including this letter, misleading. We have not, however, carried out any independent verification of the information provided by the Directors and the management of the Group, nor have we conducted any independent investigation into the business and affairs of the Company, Peking Founder or their respective subsidiaries or associates. Any subsequent developments may affect and/or change our opinion and we have no obligation to update, revise or reaffirm this opinion to take into account any events occurring after the Latest Practicable Date. Except for its inclusion in the Circular, this letter is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purpose, without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion to the Independent Board Committee and the Independent Shareholders, we have taken the following principal factors and reasons into consideration for each of the transactions under the 2019 Master Purchase Agreement and the 2019 Master Sales Agreement and the respective Proposed Annual Caps.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

1. The 2019 Master Purchase Agreement

A. *Background of and Reasons for Entering into the 2019 Master Purchase Agreement*

Peking Founder Group is principally engaged in sales of computer hardware and software and related equipment, communications equipment, instrumentation, office automation equipment; sales of electronic products, self-developed products, computers, software and auxiliary equipment as well as investment management.

The Group is principally engaged in the Distribution Business, property development and property investment in the PRC.

In respect of its Distribution Business, the Group would supply the information products to its customers. As set out in the Letter from the Board, the information products are mainly hardware and devices which require software and technical supports, the Group will need to procure additional software products, systems integration products, software development services, hardware development services and/or systems integration development services (i.e. Products and Services) from its suppliers, including the Peking Founder Group, which members of Peking Founder Group are the only/main authorised distributors of certain brands of the Products and Services (the “**Usage of Products**”). As the Group is not the authorised distributor or agent of the Products and Services, it is not able to directly purchase the Products and Services from the manufacturers for its Distribution Business. In order to allow flexibility (but not the obligation) in choosing the suppliers, which may include the Peking Founder Group in the provision of Products and Services as detailed above, the Group would like to enter into the 2019 Master Purchase Agreement with the Peking Founder Group.

As set out in the Letter from the Board, pursuant to the 2018 Master Purchase Agreement, the Group would purchase the Products and Services from Peking Founder Group on normal commercial terms and in the ordinary course of business and a non-exclusive basis.

In order to cope with the further expansion and to achieve the growth on the Distribution Business of the Group, the Group would increase its purchase quantities and introduce new types of information products to its customers, particularly those information products with famous international brands. Members of the Peking Founder Group are authorised distributors of those international brands. In addition, as intelligent systems are now commonly installed in newly developed properties in the PRC, several subsidiaries of the Group which are engaged in the business of property development and property investment in the PRC recently plan to purchase systems integration services from Peking Founder Group, so as to keep up with the competitive market and set up intelligent and automatic systems in the Group’s properties under development. The intelligent system mainly includes the installation and construction of video intercom system, patrol system, background music system, five-party intercom system, video surveillance system, side-gate system and infrared radio beam system.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As set out in the Letter from the Board, when the subsidiaries of the Group which are engaged in the business of property development and property investment purchase intelligent systems, they use the bidding method for the selection of suppliers. The selection will be made based on assessment on a totality basis including price, technology and qualification of the suppliers. As Peking Founder Group has strong experience and offers good technology in the intelligent systems industry, it had won the previous bids in the past years.

In consideration of the reasons above, the existing annual cap for 2020 set out in the 2018 Master Purchase Agreement may not be sufficient for the increasing transaction volume for the transactions under such agreement since Peking Founder Group is offering more product lines, on 28 November 2019, the Company and Peking Founder entered into the 2019 Master Purchase Agreement with a term of three years for the period from 1 January 2020 to 31 December 2022 to replace the existing annual cap for 2020 under the 2018 Master Purchase Agreement, and set up annual caps for 2021 and 2022. The 2018 Master Purchase Agreement was terminated on 31 December 2019. The Group has not entered into any transaction with Peking Founder Group pursuant to the 2019 Master Purchase Agreement.

As advised by the management of the Group, members of Peking Founder Group are authorised distributors of the Products and Services which are necessary for the Distribution Business of the Group, while the Group is not the authorised distributor or agent of the Products and Services and thus is not able to directly purchase the Products and Services from the manufacturers. As confirmed by the Directors, Peking Founder Group has various business contracts with the Group and is familiar with the Group's product and service specifications, it is able to respond quickly and in a cost effective manner to any new specifications that the Group may from time to time request when compared to other authorised distributors or agents or other independent suppliers of the Products and Services. Therefore, in order to cope with the expected future business growth of the Distribution Business and the offering of new types of information products to its customers, the Group would like to enter into the 2019 Master Purchase Agreement.

The Directors consider that the terms of the 2019 Master Purchase Agreement and its Proposed Annual Caps are in the ordinary course of business, on normal commercial terms, are fair and reasonable, and the transactions contemplated under the 2019 Master Purchase Agreement are in the interests of the Company and the Shareholders as a whole.

According to the latest annual report of the Company for the year ended 31 December 2018 (the "**2018 Annual Report**"), the revenue from the Distribution Business amounted to approximately RMB7.61 billion and RMB7.75 billion for the two years ended 31 December 2018 respectively. According to the latest interim report of the Company for the six months ended 30 June 2019 (the "**2019 Interim Report**"), the revenue from the Distribution Business amounted to approximately RMB3.37 billion and RMB3.93 billion for the six months ended 30 June 2018 and the six months ended 30 June 2019 respectively.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Having considered, (i) the Company's intention to grow the Distribution Business, which can be seen from the increase in revenue from the Distribution Business as shown in the 2018 Annual Report and the 2019 Interim Report; (ii) members of the Peking Founder Group are authorised distributors for the Products and Services of certain international brands; (iii) the Group is not able to purchase the Products and Services directly from the manufacturers; (iv) Peking Founder Group has established long-term business relationship with the Group such that Peking Founder Group is able to satisfy the Group's demands in an effective way; and (v) the transactions contemplated under the 2019 Master Purchase Agreement shall be conducted on an arm's length basis and on normal commercial terms, we are of the view that the entering into of the 2019 Master Purchase Agreement is in the ordinary and usual course of business of the Group and is in the interests of the Company and the Shareholders as a whole.

B. Principal Terms of the 2019 Master Purchase Agreement

Pursuant to the 2019 Master Purchase Agreement, Peking Founder Group would, subject to the Proposed Annual Caps thereof, continue to provide the Group with Products and Services on normal commercial terms and a non-exclusive basis. The Group and Peking Founder Group will enter into separate implementation agreements to govern terms and conditions for each purchase of the related Products and Services thereunder.

As set out in the Letter from the Board, the Group will purchase the Products and Services at market prices determined at the relevant time in accordance with the following principles:

- (i) with reference to the prices and credit terms at which such products are supplied, on normal commercial terms in its ordinary and usual course of business, to independent third party customers in the local market and/or adjacent regions; or
- (ii) where no comparables as stated in (i) are available, with reference to the prices and credit terms at which such products are supplied, on normal commercial terms in its ordinary and usual course of business, to independent third party customers in the PRC; or
- (iii) where none of the above comparables is available, with reference to the reasonable prices and credit terms agreed between the parties on an arm's length basis.

As set out in the Letter from the Board, the market prices of most Products and Services were determined with reference to the pre-fixed selling prices, if any, provided by the world-wide renowned manufacturers, which the Directors, after assessing the Group's overall bargaining power, believe that it would continue to make reference to. In addition, the purchase procedure that the Group adopts to purchase such products from all the suppliers, being that the Peking Founder Group or independent third parties, are the same. To determine the credit terms of the 2019 Master Purchase Agreement, the Group adopted

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

the same procedure as in any purchase transaction involving the Group to determine the credit terms upon comparison of the respective credit terms provided by other potential suppliers in the market. The Group will sign the standardised contract with the relevant suppliers. The procurement management, finance, legal and other relevant departments of the Group will use the same assessment criteria to review and approve the 2019 Master Purchase Agreement, and ensure that the Group uses the same procedures to make the payment under the 2019 Master Purchase Agreement.

As advised by the management of the Group, it is a market practice that most of the manufacturers have the right to adjust the selling price offered by their authorised distributors/agents if they think the selling price offered by a particular authorised distributor/agent is not reasonable, in order to ensure the market prices of that particular product are comparable.

As stated in the Letter from the Board and as advised by the management of the Group, to further ensure that the terms including the price offered by Peking Founder Group to the Group will be no less favourable than those offered by third party vendors, before entering into any purchase transactions with Peking Founder Group, the purchasing department of the Group will obtain quotations from at least three suppliers (including the one from Peking Founder Group) and then perform assessment based on several criteria (the “**Purchase Selection Process**”). The selection will be based on the assessment on a totality basis including price, technology, qualification of the suppliers, delivery time, payment terms and quality standard etc. from the quotations. The Group will only enter into a purchase transaction with Peking Founder Group if the overall assessment results shows that the terms offered by Peking Founder Group are no less favourable than those offered by third party vendors.

Shareholders should note that, pursuant to the 2019 Master Purchase Agreement, purchase by the Group from Peking Founder Group is on a non-exclusive basis. Accordingly, the entering into of the 2019 Master Purchase Agreement serves to provide more flexibility to, rather than impose any restriction on, the Group in the selection of suppliers for the Products and Services. The Group will only transact with Peking Founder Group if, after conducting the internal comparison as detailed above, the terms offered by the Peking Founder Group are comparable to those from the other independent suppliers. As such, we are of the view that the 2019 Master Purchase Agreement would provide commercial flexibility to the Group in the selection of relevant suppliers.

As stated in the Letter from the Board, the terms of the 2019 Master Purchase Agreement will become effective from 1 January 2020 and will expire on 31 December 2022. The 2019 Master Purchase Agreement, or any contract signed pursuant to the 2019 Master Purchase Agreement, can be terminated by 30 days’ notice in writing by either party.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Based on the mechanism that the Group has put in in determining the major terms of the purchases, we are of the view that the transactions contemplated under the 2019 Master Purchase Agreement will be conducted on normal commercial terms. Therefore, we consider that the terms of the 2019 Master Purchase Agreement are fair and reasonable so far as the Company and the Independent Shareholders are concerned.

C. The Proposed Annual Caps for the Purchase from Peking Founder Group

The historical figures, the historical annual caps and the Proposed Annual Caps in respect of the 2019 Master Purchase Agreement are as follows:

	Year ended 31 December 2017	Year ended 31 December 2018	Six months ended 30 June 2019	Year ended 31 December 2019	Year ending 31 December 2020	Year ending 31 December 2021	Year ending 31 December 2022
Historical Figures							
<i>RMB million</i>	56	16	9	N/A	N/A	N/A	N/A
<i>(approximately)</i>							
<i>HK\$ million</i>	61	18	10	N/A	N/A	N/A	N/A
<i>(approximately)</i>							
Historical Annual Caps							
<i>RMB million</i>	350	30	N/A	30	30	N/A	N/A
<i>(approximately)</i>							
<i>HK\$ million</i>	383	33	N/A	33	33	N/A	N/A
<i>(approximately)</i>							
Proposed Annual Caps							
<i>RMB million</i>	N/A	N/A	N/A	N/A	100	100	100
<i>(approximately)</i>							
<i>HK\$ million</i>	N/A	N/A	N/A	N/A	110	110	110
<i>(approximately)</i>							

As stated in the Letter from the Board, the Proposed Annual Caps have been determined with reference to the historical purchase pattern and expected total value of the transactions between the Group and Peking Founder Group under the 2019 Master Purchase Agreement. In particular, the Directors have taken into account the expected increase in the Group's demand for Products and Services for the purpose of carrying out its Distribution Business and the business of property development and property investment.

The Proposed Annual Caps under the 2019 Master Purchase Agreement for each of the three years ending 31 December 2022 are RMB100 million (equivalent to approximately HK\$110 million) respectively. In order to consider the fairness and reasonableness of the

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Proposed Annual Caps under the 2019 Master Purchase Agreement for each of the three years ending 31 December 2022, we have taken into consideration of the following aspects:

- (i) as stated in the 2018 Annual Report and the 2019 Interim Report, the Distribution Business represents one of the principal businesses of the Group. As advised by the management of the Group, the Group will continue to expand the Distribution Business in various ways, including looking for alliance with other international information products suppliers. In this regard, the Directors expect that there will be further growth in the Distribution Business of the Group;
- (ii) the Distribution Business had already exhibited a growth in the past. According to the 2018 Annual Report, the revenue from the Distribution Business amounted to approximately RMB7.61 billion and RMB7.75 billion for the two years ended 31 December 2018 respectively. According to the 2019 Interim Report, the revenue from the Distribution Business amounted to approximately RMB3.37 billion and RMB3.93 billion for the six months ended 30 June 2018 and the six months ended 30 June 2019 respectively;
- (iii) according to the Letter from the Board, Beijing Founder Century, an indirect wholly-owned subsidiary of the Company, entered into the 2019 Distribution Agreement I with a manufacturer of Huawei Brand in 2019, pursuant to which Beijing Founder Century has been authorised to distribute information products of Huawei Brand such as data communication, security, storage, intelligent computing and other hardware and devices for distribution, erection implementation, cloud computing, system integration systems in the PRC for a term of nine months. Furthermore, Beijing Founder Century entered into the distribution agreement with a manufacturer of Lenovo Brand in October 2017 and renewed the agreement periodically. Pursuant to the 2019 Distribution Agreement II entered with a manufacturer of Lenovo Brand in 2019 (collectively, the “**Lenovo Distribution Agreements**”), Beijing Founder Century has been authorised to distribute information products of Lenovo Brand such as PCs, monitors, servers and hardware and devices for distribution and erection implementation in the PRC for a term from 16 May 2019 to 31 March 2022. As such, the Group has been authorised to introduce additional information products for its Distribution Business. To capture the business opportunities generated therefrom, the Group will need additional Products and Services from its suppliers, including Peking Founder Group. Accordingly, the Directors believe that there will be a substantial increase in the purchase amount of Products and Services by the Group from Peking Founder Group for the three years ending 31 December 2022. Since the Products and Services are used for its Distribution Business, the increase in the number of authorised distributorships of the information products of the Group would require purchases of additional Products and Services from relevant suppliers (including the Peking Founder Group). However, as confirmed with the management of the Group, there is no direct inter-relationship between the purchase of the Products and Services from

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

the Peking Founder Group and the supply of the information products to the Peking Founder Group under the 2019 Distribution Agreement I and the 2019 Distribution Agreement II;

- (iv) the historical purchases from Peking Founder Group for the year ended 31 December 2018 amounted to approximately RMB16 million (equivalent to approximately HK\$18 million), representing a decrease from the historical purchases of approximately RMB56 million (equivalent to approximately HK\$61 million) from Peking Founder Group for the year ended 31 December 2017. The historical purchases from Peking Founder Group for the six months ended 30 June 2019 was approximately RMB9 million (equivalent to approximately HK\$10 million). As set out in the Letter from the Board, despite the commencement of the distribution agreement with the manufacturer of Lenovo Brand in October 2017, there has been a decrease in the historical purchase amount for the year ended 31 December 2018 and the six months ended 30 June 2019 as compared to the year ended 31 December 2017 as the historical purchase amount was limited by the annual caps for the year ended 31 December 2018 and year ended 31 December 2019 under the 2018 Master Purchase Agreement, which were RMB30 million (equivalent to approximately HK\$33 million) each year. In addition, the Distribution Agreement I was entered into on 1 July 2019 and therefore the Group would need an increased Proposed Annual Caps to cater for the future business needs. In respect of the above, the Directors consider that the historical purchase amounts did not reasonably reflect the future needs of the Group in respect of the purchase of Products and Services from the Peking Founder Group;
- (v) as set out in the Letter from the Board, since the 2019 Distribution Agreement I was entered into on 1 July 2019, more information products are available to be offered and also more Usage of Products are required, which resulted in a significant increase in the purchase amount of Huawei Brand and other brands by approximately RMB551 million and RMB119 million respectively during July to November 2019 (the “**Purchase Increment**”) as compared with the corresponding period in 2018 which indicated that there was and would be an increase in demand of Products and Services. We understand from the management of the Group that, since Beijing Founder Century only entered into the 2019 Distribution Agreement I in July 2019, the purchase of Products and Services for Huawei Brand was not material. The management reviewed material purchase orders under the Purchase Increment of other brands and is of the view that approximately 25% of the amount of products in those purchase orders can be purchased from the Peking Founder Group, therefore, the Group estimates that approximately 25% of the increase in purchase of other brands may be required to be provided by Peking Founder Group (the “**Forecast Percentage**”) which is assumed to be maintained during the three years ending 31 December 2022. Therefore, an increased Proposed Annual Caps are needed to capture the business opportunities. We have reviewed certain purchase orders amounted to approximately RMB30.3 million for the period from July 2019 to September

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

2019 and had discussed the same with the management of the Group. We are given to understand that those purchase orders are for Products and Services which can also be sourced from the Peking Founder Group and such represented approximately 25.5% of the Purchase Increment of the other brands. We had also discussed with the management of the Group in relation to the forecast purchase for the year 2020 and the management of the Group considers that the trend for the Purchase Increment of the other brands would maintain at a similar level. Based on the Purchase Increment of approximately RMB119 million during July to November 2019 and the Forecast Percentage of approximately 25%, the estimated purchase from Peking Founder Group for the year ended 31 December 2019 is approximately RMB71.4 million. Despite information communication technology is becoming more popular in the PRC, the Directors based on the market information and assume the possible decline in purchase amount. As in the article “Market Monitor ICT China 2019” about market monitor of PRC information communication technology market (the “**ICT Market**”) released on 18 June 2019 by Atradius N.V., it states that the competition in the ICT Market is facing domestic and external challenges. According to the article “Building and Training Sales Army in the ICT Industry” about the ICT Market released on 25 April 2019 by Niutoushe (Beijing) Network Technology Co. Ltd.* (崔牛(北京)網絡科技有限公司), it also states that the competition in the ICT Market remains to be fierce as the competition is not just against foreign brands such as Cisco, but also domestic brands such as Inspur. Thus, for prudent sake, the Directors made a fair and reasonable assumption that the estimated purchase from Peking Founder Group for the three years ending 31 December 2022 may be slightly reduced to approximately RMB70 million, RMB60 million and RMB50 million respectively. We have reviewed the article from Atradius N.V. and noted that it has stated that the domestic demand for the ICT Market should be able to sustain over the coming three years. Additionally, increasing disposable incomes support discretionary spending on IT-related equipment. Penetration rates of business hardware, software and IT services are still low in China. However, the article also states that the Chinese ICT Market is increasingly facing domestic and external challenges. Therefore, we are of the view that the downward adjustment made by the Group represents a prudent estimate for the future transactions with the Peking Founder Group as other suppliers may adjust their terms to directly compete with the Peking Founder Group for the business of the Group;

- (vi) as confirmed with the management of the Group, due to the insufficient annual caps for the two years ended 31 December 2019 and the fact the Group only entered into the 2019 Distribution Agreement I in July 2019, the Group is not able to purchase the relevant Products and Services from the Peking Founder Group and the historical transaction amounts with the Peking Founder Group do not reflect the transaction amounts under the 2019 Distribution Agreement I and the Lenovo Distribution Agreements. In addition, although the 2019 Distribution Agreement I is only valid for a term of nine months from July 2019, we understand from the management of the Group that different manufacturers have

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

different practices in determining the validity periods for their distribution agreements and the Group currently does not consider that there will be any impediment to renew the same upon its expiry, which are also the cases for the majority of its distribution agreements with other manufacturers of information products. As for the 2019 Distribution Agreement II which will be expiring on 31 March 2022, as Beijing Founder Century has established a solid and stable relationship with the manufacturer of Lenovo Brand since October 2017 and has renewed the agreement periodically. The Group currently does not consider that there will be any impediment to renew the same upon its expiry;

- (vii) as set out in the Letter from the Board, as intelligent systems are now commonly installed in newly developed properties in the PRC, several subsidiaries of the Group which are engaged in the business of property development and property investment in the PRC recently plan to purchase systems integration services from Peking Founder Group, so as to keep up with the competitive market and set up intelligent and automatic systems in the Group's properties under development. When the subsidiaries of the Group which are engaged in the business of property development and property investment purchase intelligent systems, they use the bidding method for the selection of suppliers. The selection will be made based on assessment on a totality basis including price, technology and qualification of the suppliers. As Peking Founder Group has strong experience and offers good technology in the intelligent systems industry, it had won the previous bids in the past years;

- (viii) as stated in the Letter from the Board, the purchase of automatic and intelligent systems by the Group from Peking Founder Group during the six months ended 30 June 2018 and the year ended 31 December 2018 are approximately RMB5.8 million and RMB16.2 million respectively, thus the Group assumes the seasonal effect is 0.36 (proportion of purchase in the first half of the year to that of the whole year). The seasonal effect represents the business fluctuation based on particular season, in which due to more holidays during the Chinese New Year from January to February, resulting in less purchase during the first half of the year as compared with that in the second half of the year. Based on the purchase amount of automatic and intelligent systems by the Group from Peking Founder Group during the six months ended 30 June 2019 of approximately RMB9.0 million and the seasonal effect of 0.36, the estimated purchase amount during the year ended 31 December 2019 is approximately RMB25 million. During the six months ended 30 June 2019, the Group had 13 property development projects which required the installation of intelligent and automatic systems in residential and commercial properties in the PRC. The average price for the systems in each project is approximately RMB1.5 million. Due to the expansion of property development business, the growth of sales of property development business for the six months ended 30 June 2019 as compared with that of the same period in 2018 is around 30%. The Group expects the growth is similar in the future years. The Group assumes the forecast growth rate of around 30% can be maintained

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

for the three years ending 31 December 2022 with reference to the existing projects on hand and future development plan. Based on the estimated purchase amount of approximately RMB25 million during the year ended 31 December 2019 and the forecast growth rate of around 30%, the Group expects the purchase for the three years ending 31 December 2022 are approximately RMB30 million, RMB40 million and RMB50 million respectively. Based on the list of awarded projects requiring the installation of intelligent and automatic system from the Group, we noted that the purchase amount of the Group from the suppliers (including the Peking Founder Group) for the year ended 31 December 2018 and the six months ended 30 June 2019 amounted to approximately RMB25.8 million and RMB18.5 million respectively. We have also obtained from the Group a list of expected tenders relating to the provision of intelligent and automatic systems in the PRC for the Group's projects on hand for the year ending 31 December 2020, we noted that the total potential awarded tender amount has reached approximately RMB31.0 million (without taking into account the potential property project to be acquired in the future). In view of this, it is also expected that the purchase amount of Products and Services by the Group from Peking Founder Group for carrying out the business of property development and property investment will increase in the future; and

- (ix) as noted from the above and further confirmed with the Directors in respect of the Purchase Selection Process, we noted that the Company has put in place internal assessment process for the suppliers selection and the Group will only transact with the Peking Founder Group only if, after the Purchase Selection Process, the terms offered by the Peking Founder Group are comparable to other independent suppliers.

We acknowledge the fact that (i) the insufficient annual caps have restricted the flexibility of the Group to transact with the Peking Founder Group for the purchase of the Products and Services. The Directors would like to transact with the Peking Founder Group if the terms are comparable with those offered by independent third parties as the Peking Founder Group has strong experience in the industry and is the authorised distributor of Products and Services of certain international brands. In addition, the Peking Founder Group will be more efficient in terms of processing transactions for the Group given their previous close working relationship with the Group and its better understanding of the operations and development needs of the Group. According to the management of the Group, the historical purchase amounts of the Products and Services for the year ended 31 December 2018 and the six months ended 30 June 2019 were mainly for the purchase from the subsidiaries of the Group which are engaged in the business of property development and property investment. Due to the insufficient historical annual caps under the 2018 Master Purchase Agreement, the Distribution Business was not able to purchase from the Peking Founder Group; (ii) the Group is now able to offer more information products to the market as a result of the 2019 Distribution Agreement I and the 2019 Distribution Agreement II, and therefore will need additional Products and Services from its suppliers, including the Peking Founder Group; (iii) as advised by the management of the Group, the

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Group will continue to expand the Distribution Business in various ways, including looking for alliance with other international information products suppliers. In this regard, the Directors expect that the demand for the Products and Services would be increased accordingly; (iv) the demand for the Products and Services is further increased as a result of the demand from certain PRC subsidiaries of the Company recently plan to purchase systems integration services from the Peking Founder Group, so as to set up intelligent and automatic systems in the Group's properties under development; and (v) the Purchase Selection Process has been adopted by the Group and the annual reviews will be conducted by the independent non-executive Directors and the auditors of the Company of the continuing connected transactions in accordance with Rule 14A.56 of the Listing Rules to ensure that the 2019 Master Purchase Agreement would be properly carried out. Having considered the above, we are of the view that the Proposed Annual Caps under the 2019 Master Purchase Agreement are fair and reasonable.

2. The 2019 Master Sales Agreement

A. Background of and Reasons for the 2019 Master Sales Agreement

As set out in the Letter from the Board, pursuant to the 2018 Master Sales Agreement, the Group would supply certain information products (including but not limited to desktop computers, laptop computers, servers, networking tools, internet products, monitors and software, etc.) to Peking Founder Group on normal commercial terms and in the ordinary course of business and a non-exclusive basis.

As the existing annual cap for 2020 set out in the 2018 Master Sales Agreement may not be sufficient for the increasing transaction volume for the transactions under such agreement, on 28 November 2019, the Company and Peking Founder entered into the 2019 Master Sales Agreement with a term of three years for the period from 1 January 2020 to 31 December 2022 to replace the existing annual cap for 2020 under the 2018 Master Sales Agreement, and set up annual caps for 2021 and 2022. The 2018 Master Sales Agreement was terminated on 31 December 2019. The Group has not entered into any transaction with Peking Founder Group pursuant to the 2019 Master Sales Agreement.

As confirmed by the management of the Group, the Group would continue to supply the information hardware products to Peking Founder Group on normal commercial terms and a non-exclusive basis. According to the Letter from the Board, Peking Founder Group has been purchasing information products for its customers to set up computer systems, and provide software solutions to its clients. The Board considers that it is beneficial to the Group to supply information products to Peking Founder Group on normal commercial terms, thus broadening its customer and revenue base.

Having considered that, (i) entering into of the 2019 Master Sales Agreement is in line with the principal business and activities of the Group; (ii) the 2019 Master Sales Agreement is expected to be a continuation and renewal of the 2018 Master Sales Agreement; (iii) the Group has established long-term business relationship with Peking

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Founder Group and would maintain such business relationship through the 2019 Master Sales Agreement; and (iv) the transactions contemplated under the 2019 Master Sales Agreement shall be conducted on an arm's length basis and on normal commercial terms, we are of the view that the entering into of the 2019 Master Sales Agreement is in the ordinary and usual course of business of the Group and is in the interests of the Company and the Shareholders as a whole.

B. Principal Terms of the 2019 Master Sales Agreement

Pursuant to the 2019 Master Sales Agreement, the Group would, subject to certain conditions, continue to provide Peking Founder Group with certain information products (including but not limited to desktop computers, laptop computers, servers, networking tools, internet products, monitors and software, etc.) on normal commercial terms and a non-exclusive basis.

As set out in the Letter from the Board, pursuant to the 2019 Master Sales Agreement, the Group will provide such information products at market prices determined at the relevant time in accordance with the following principles:

- (i) with reference to the prices and credit terms at which such information hardware products are supplied, on normal commercial terms in its ordinary and usual course of business, to independent third party customers in the local market and/or adjacent regions; or
- (ii) where no comparables as stated in (i) are available, with reference to the prices and credit terms at which such information hardware products are supplied, on normal commercial terms in its ordinary and usual course of business, to independent third party customers in the PRC; or
- (iii) where none of the above comparables is available, with reference to the reasonable prices and credit terms agreed between the parties on an arm's length basis.

As set out in the Letter from the Board, when determining the market prices for the sale of such information hardware products, the Group took into account mainly the prices, if any, as provided by the manufacturers. The prices provided by the manufacturers for such information hardware products are guideline prices which are updated on an as-required basis. The guideline prices set by the manufacturers are adjusted based on the market demand, manufacturers' and their competitors' business strategies, customer type and contract size. The Group considered the service and costs (i.e. the manufacturer's cost) and mark-up accordingly at the market standard range of approximately 1–4%, with the average mark-up percentage of approximately 2.7%. As the Directors have compared the profit margin mark-up range of Beijing Founder Century with the profit margin of its competitors based on their financial reports, they consider that the mark-up range of approximately 1–4% is in line with the market. We have reviewed four sales transactions of the Group

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

with independent third party customers, and noted that their margins range from approximately 1.5–4.0%. Therefore, we are of the view that the profit margins are the same as those applied to the independent third parties in the market. The determination of the credit terms was made with reference to the market practice, usually 45 to 90 days, depending on whether the customer is an agent or an integration system provider. The Company will adopt the same pricing formula and credit term determination mechanism applicable to all customers including Peking Founder Group and independent third parties. Other than the above, the sales procedures that the Group adopted to supply such products to all customers, be that Peking Founder Group or independent third parties, are the same. The Group will sign the standardised contract with Peking Founder Group. The sales management, finance, legal and other relevant departments will use the same assessment criteria to review and approve the 2019 Master Sales Agreement, and ensure that the Group uses the same procedures to issue invoices.

Shareholders should note that, pursuant to the 2019 Master Sales Agreement, sales by the Group to Peking Founder Group is on a non-exclusive basis. Accordingly, the Group is not obligated to transact with Peking Founder Group and would only do so if it is in the commercial interests of the Group, and it does not restrict the Group from selling to other customers. As such, we are of the view that the 2019 Master Sales Agreement would provide commercial flexibility to the Group for its Distribution Business.

As stated in the Letter from the Board, the terms of the 2019 Master Sales Agreement will become effective from 1 January 2020 and will expire on 31 December 2022. The 2019 Master Sales Agreement, or any contract signed pursuant to the 2019 Master Sales Agreement, can be terminated by 30 days' notice in writing by either party.

Based on the mechanism that the Group has put in in determining the major terms of the sales, we are of the view that the transactions contemplated under the 2019 Master Sales Agreement will be conducted on normal commercial terms. Therefore, we consider that the terms of the 2019 Master Sales Agreement are fair and reasonable so far as the Company and the Independent Shareholders are concerned.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

C. The Proposed Annual Caps for the Sales to Peking Founder Group

The historical figures, the historical annual caps and the Proposed Annual Caps in respect of the 2019 Master Sales Agreement are as follows:

	Year ended 31 December 2017	Year ended 31 December 2018	Six months ended 30 June 2019	Year ended 31 December 2019	Year ending 31 December 2020	Year ending 31 December 2021	Year ending 31 December 2022
Historical Figures							
<i>RMB million</i> <i>(approximately)</i>	148	27	3	N/A	N/A	N/A	N/A
<i>HK\$ million</i> <i>(approximately)</i>	162	30	3	N/A	N/A	N/A	N/A
Historical Annual Caps							
<i>RMB million</i> <i>(approximately)</i>	1,000	30	N/A	30	30	N/A	N/A
<i>HK\$ million</i> <i>(approximately)</i>	1,095	33	N/A	33	33	N/A	N/A
Proposed Annual Caps							
<i>RMB million</i> <i>(approximately)</i>	N/A	N/A	N/A	N/A	1,000	1,000	1,000
<i>HK\$ million</i> <i>(approximately)</i>	N/A	N/A	N/A	N/A	1,095	1,095	1,095

As stated in the Letter from the Board, the Proposed Annual Caps have been determined with reference to the historical monthly sales volume and expected purchases estimated by Peking Founder Group under the 2019 Master Sales Agreement.

In order to consider the fairness and reasonableness of the Proposed Annual Caps under the 2019 Master Sales Agreement for each of the three years ending 31 December 2022, we have taken into consideration of the following aspects:

- (i) as stated in the 2018 Annual Report and the 2019 Interim Report, the Distribution Business represents one of the principal businesses of the Group. As advised by the management of the Group, the Group will continue to expand the Distribution Business in various ways, including looking for alliance with other international information products suppliers. In this regard, the Directors expect that there will be further growth in the Distribution Business of the Group;

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (ii) the Distribution Business had already exhibited a growth in the past. According to the 2018 Annual Report, the revenue from the Distribution Business amounted to approximately RMB7.61 billion and RMB7.75 billion for the two years ended 31 December 2018 respectively. According to the 2019 Interim Report, the revenue from the Distribution Business amounted to approximately RMB3.37 billion and RMB3.93 billion for the six months ended 30 June 2018 and the six months ended 30 June 2019 respectively;
- (iii) according to the information available from the public domains relating to the ICT Market in the PRC. We note from an article released on 7 June 2018 by China Daily that, according to International Data Corporation, an independent provider of market intelligence and advisory services for the ICT Market, the ICT Market in PRC will experience a compound annual growth rate of approximately 8.6% from 2016 to 2021. In addition, according to National Bureau of Statistics of China, from 2008 to 2018, the annual nominal gross domestic product (the “GDP”) of PRC grew at a compound annual growth rate of approximately 11.2% from approximately RMB31,924.5 billion to RMB91,928.1 billion. Based on the increasing trend of the GDP and the growth of the ICT Market in the PRC, the Directors consider that the Distribution Business, and also the transactions contemplated under the 2019 Master Sales Agreement, will both experience growth in the coming years;
- (iv) as stated in the Letter from the Board, the historical sales to Peking Founder Group for the year ended 31 December 2018 amounted to approximately RMB27 million (equivalent to approximately HK\$30 million), representing a decrease as compared to the sales to Peking Founder Group of approximately RMB148 million (equivalent to approximately HK\$162 million) for the year ended 31 December 2017. However, we note that the transaction amount for the year ended 31 December 2018 already represented approximately 90% of the annual cap for the relevant year under the 2018 Master Sales Agreement. The historical sales to Peking Founder Group for the six months ended 30 June 2019 further decreased to approximately RMB3 million (equivalent to approximately HK\$3 million). As advised by the management of the Group, the historical transaction amounts with the Peking Founder Group were hindered by the insufficient annual caps for the year ended 31 December 2018 and year ended 31 December 2019 under the 2018 Master Sales Agreement, which were RMB30 million (equivalent to approximately HK\$33 million) each year. The Directors consider that the historical sales amounts did not reasonably reflect the future sales between the Group and the Peking Founder Group;
- (v) as set out in the Letter from the Board, Beijing Founder Century, an indirect wholly-owned subsidiary of the Company, entered into the 2019 Distribution Agreement I with a manufacturer of Huawei Brand in 2019, pursuant to which Beijing Founder Century has been authorised to distribute information products of Huawei Brand such as data communication, security, storage, intelligent

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

computing and other hardware and devices for distribution, erection implementation, cloud computing, system integration systems in the PRC for a term of nine months. Beijing Founder Century has the intention to renew the 2019 Distribution Agreement I upon the expiry of its term. Beijing Founder Century does not expect there is any material condition to be fulfilled by it for such renewal. With its expanding distribution business, Huawei has a high demand for engineering expertise, technical support and systems. Hence, the Directors believe that the risk for discontinuation of the 2019 Distribution Agreement I is low and the estimation of annual caps under the 2019 Master Sales Agreement should not be affected. Even if the 2019 Distribution Agreement I is not renewed, the Group may distribute other products such as H3C and Dell, which also have high demand for software and technical supports. Furthermore, Beijing Founder Century entered into the 2019 Distribution Agreement II with a manufacturer of Lenovo Brand in 2019, pursuant to which Beijing Founder Century has been authorised to distribute information products of Lenovo Brand such as PCs, monitors, servers and hardware and devices for distribution and erection implementation in the PRC for a term from 16 May 2019 to 31 March 2022. As such, the Group will have a higher capacity to offer information products to its customers, including Peking Founder Group which purchases information products for its customers to set up computer systems. Therefore, the Directors consider that the launch of such new products is expected to further increase the sales amount to Peking Founder Group for the three years ending 31 December 2022. We have obtained and reviewed the 2019 Distribution Agreement I and the 2019 Distribution Agreement II;

- (vi) as advised by the management of the Group, after the signing of the 2019 Distribution Agreement I, there was a demand from the Peking Founder Group of approximately RMB600 million (a relatively large-scale system integration project relating to the distribution of large-scale workstations which required the Group to provide information product of Huawei Brand). At that time, since the Group would be able to distribute the information products of Huawei Brand and the Peking Founder Group would like to purchase information products of Huawei Brand, the Peking Founder Group would like to purchase from the Group, being the authorised distributor of Huawei Brand. However, in view of the insufficient annual cap of RMB30 million for the year ended 31 December 2019, the Group was not able to capture such purchase orders from the Peking Founder Group and the Peking Founder Group had no choice but to purchase from other authorised distributor. As advised by the management of the Group and as stated in the Letter from the Board, the tender of that project was expected to be completed within one month and the delivery of information products will be completed within one to three months after the tender is confirmed. No agreement was signed between Beijing Founder Century and Peking Founder Group as Beijing Founder Century gave up to enter into the tender stage in view of the insufficient annual cap. However, we are advised that the Peking Founder Group had executed part of the purchase order with another

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

supplier in November 2019 of an amount of approximately RMB320 million, with the remaining to be executed in due course. Beijing Founder Century entered into sales agreement of approximately RMB399 million with a single customer for supply of information products such as H3C servers and workstations, the commonly used products in system integration projects of Peking Founder Group in the past (the “**Past Transactions**”) showing that Beijing Founder Century had the capacity to fulfill large-scale sales agreement and there is demand of large-scale workstations in the PRC. The Directors are of the view that Past Transactions are related to the expected sales amount to the Peking Founder Group. Peking Founder Group obtained a large-scale system integration sales contract to sell Huawei products of approximately RMB860 million in August 2018 and intends to sell Huawei products to the same customer in another large-scale system integration project of approximately RMB2.0 billion for the year of 2020. It is expected that Beijing Founder Century would be invited to meet the partial purchase demand of Peking Founder Group in such project. There is further demand from Peking Founder Group on Huawei products for another large-scale system integration project of approximately RMB1.5 billion for the year of 2020 and it is expected that Beijing Founder Century would be invited to partially supply Huawei products to address such additional demand. Based on the past demand of Peking Founder Group for large-scale projects and the estimation of stable future demand of large-scale workstations in the PRC market, the Group is expected to work with the Peking Founder Group on one to two large-scale project(s) with the range from approximately RMB500 million to RMB1.2 billion each per year. The total average amount of transactions is approximately RMB1 billion per year. Thus, in projecting the total amount of transactions between the Group and Peking Founder Group to determine the Proposed Annual Caps under the 2019 Master Sales Agreement, the Directors have taken into account such sale opportunities from Peking Founder Group which had not been fully realised by the Group during the year ended 31 December 2019. We have discussed with the management of the Group and understand that the Group would be invited to participate in meeting certain demands of the approximately RMB2.0 billion and RMB1.5 billion projects as detailed above. We have reviewed an email communication from the Peking Founder Group suggesting that the Group would be invited to participate in the bidding of these two projects. Accordingly, the Directors believe that there will be a substantial increase in the sales amount of information products of the Group to Peking Founder Group for the three years ending 31 December 2022, and the Directors consider that insufficient annual caps will not only restrict the Group to trade with connected persons but also limit the growth and profitability of the Distribution Business. We have obtained and reviewed the purchase order quotation from the Peking Founder Group for the information products worth of approximately RMB600 million for Huawei Brand; and

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(vii) as advised by the management of the Group, the Group had discussed the Proposed Annual Caps with the management of the Peking Founder Group, and estimated the sales amount of information hardware products under the 2019 Master Sales Agreement with reference to the expected demand from Peking Founder Group for the three years ending 31 December 2022. Due to the fact that the (i) product cycle of information hardware products are relatively short; (ii) information hardware products manufacturers will need to launch new products continuously to maintain their competitiveness in the market; and (iii) Group is only a distributor for those manufacturers and it would be difficult for the Group to accurately and precisely estimate such product development and launch cycle, therefore, it would not be feasible to arrive at an accurate and precise estimation of the Proposed Annual Caps. In addition, the Group may also enter into new distribution agreements with other information hardware products manufacturers in the future. However, based on the historical transaction volume, the sales forgone for the Huawei Brand as stated above and the discussion with the Peking Founder Group, the Group considers that the Proposed Annual Caps would be reasonable in order to maintain the competitiveness and flexibility in conducting the Distribution Business.

We acknowledge the fact that (i) the insufficient annual caps have restricted the flexibility of the Group to transact with the Peking Founder Group for the sales of the information products; (ii) the Group is now able to offer more information products to the market as a result of the 2019 Distribution Agreement I and the 2019 Distribution Agreement II, and therefore increased Proposed Annual Caps are required to capture the sales opportunities from the Peking Founder Group; (iii) there was a sales order of approximately RMB600 million from the Peking Founder Group foregone due to the insufficient annual cap for the year ended 31 December 2019; (iv) the ICT Market in PRC will experience a compound annual growth rate of approximately 8.6% from 2016 to 2021 as stated above; and (v) the annual reviews will be conducted by the independent non-executive Directors and the auditors of the Company of the continuing connected transactions in accordance with Rule 14A.56 of the Listing Rules to ensure that the 2019 Master Sales Agreement would be properly carried out. Having considered the above, we are of the view that the Proposed Annual Caps under the 2019 Master Sales Agreement are fair and reasonable.

3. Internal Control Procedures and Corporate Governance Measures

As detailed in the Letter from the Board, before entering into any implementation agreements under the 2019 Master Purchase Agreement and the 2019 Master Sales Agreement, the following will be adopted by the Company to ensure that (i) the transactions will be conducted in accordance with the terms under the 2019 Master Purchase Agreement and the 2019 Master Sales Agreement; (ii) in compliance with the terms offered by the relevant connected parties to the Group are no less favourable than those available from independent third parties, and the terms offered by the Group to relevant connected parties are not more favourable than that offered to independent third parties (if any); and (iii) in compliance with the Listing Rules:

- Before entering into sales transaction, the Group took into account mainly the pre-fixed prices as provided by the manufacturers in determining the market prices for the sale of such information hardware products. The Group adopted the same pricing formula and credit term determination mechanism applicable to all customers including connected parties and independent third parties.

We have obtained and reviewed, on a sampling basis, sales agreements entered into by the Group with the Peking Founder Group and with two independent customers on information products of the same international brand, we note that their principal terms, including credit terms, are comparable with each other and the prices are with reference to the selling prices as advised by the manufacturer.

The Group has adopted the Purchase Selection Process to purchase Products and Services from all the suppliers, be that the Peking Founder Group or independent third parties. The Group signed the standardised contracts with the relevant suppliers. The procurement management, finance, legal and other relevant departments used the same assessment criteria to review and approve the purchase agreements.

In order to see if the Purchase Selection Process is properly adopted to ensure that the terms offered by Peking Founder Group would be no less favourable than those available from independent third parties, we have obtained and reviewed, on a sampling basis, two assessments (one of them involved the Peking Founder Group) performed on the suppliers for the purchases of the Products and Services. We note that depending on the nature of the work, different criteria will be pre-set for different purchases but the selection criteria will generally include financial backgrounds, quality management, warranty, payment terms as well as delivery periods. Based on the selection criteria, the Group would invite qualified staff for assessment and the one with highest score will be selected for the purchases. Based on the two samples, we note that the selections are on totality basis and the ones with highest scores after the assessment processes were selected for the purchases. Therefore, we are of the view that the Purchase Selection Process would help to ensure that the terms offered

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

by Peking Founder Group are no less favourable than those offered by third party suppliers as all the suppliers (including the Peking Founder Group) would be subject to the same Purchase Selection Process;

- The Group's finance department will also collect statistics of each of the transactions contemplated under the 2019 Master Purchase Agreement and the 2019 Master Sales Agreement, on a monthly basis to ensure the Proposed Annual Caps to be approved by the Independent Shareholders are not exceeded;
- The independent non-executive Directors will review the interim and annual financial reports and which contain the information on the implementation of the continuing connected transactions. They will give their views on the continuing connected transactions, mainly including whether the continuing connected transactions are fair and reasonable, and whether the actual transaction amounts incurred by the continuing connected transactions are within the approved Proposed Annual Caps; and
- The external auditor of the Company will conduct an annual audit each year, and review the implementation of the continuing connected transactions by the Company, including whether the actual transaction amounts incurred by the continuing connected transactions are within the Proposed Annual Caps during the year pursuant to the requirements of the Listing Rules.

Through the adoption of the above internal control procedures and corporate governance measures, the Directors believe that it will provide safeguard to supervise and monitor (i) compliance of the terms offered by the relevant connected parties to the Group, and the terms offered by the Group to relevant connected parties will be on market terms and on normal commercial terms and will be fair and reasonable to the Company and in the interest of the Shareholders as a whole; and (ii) the Proposed Annual Caps to be approved by the Independent Shareholders that will be adhered to and the continuing connected transactions will be conducted within the approved Proposed Annual Caps during the relevant year pursuant to the requirements under Listing Rules.

In respect of the continuing connected transactions contemplated under the 2018 Master Purchase Agreement and the 2018 Master Sales Agreement, we noted from the 2018 Annual Report that an annual review of the transactions contemplated under the 2018 Master Purchase Agreement and the 2018 Master Sales Agreement have been conducted according to Chapter 14A of the Listing Rules, and that the independent non-executive Directors have reviewed and confirmed that the transactions contemplated under the 2018 Master Purchase Agreement and the 2018 Master Sales Agreement were entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or, if there are no sufficient comparable transaction to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interest of the Shareholders as a whole. The 2018 Annual Report also confirmed that the Company's auditors have issued an unqualified letter containing their findings and

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

conclusions in respect of the continuing connected transactions in accordance with Rule 14A.56 of the Listing Rules. Furthermore, the 2019 Master Purchase Agreement and the 2019 Master Sales Agreement will, pursuant to the Listing Rules, continue to be subject to the review by the independent non-executive Directors and the auditors of the Company at least annually, details of which must be included in the Company's subsequent published annual reports.

In view of the above, we are satisfied that appropriate internal control measures are in place to govern the conduct of the transactions contemplated under the 2019 Master Purchase Agreement and the 2019 Master Sales Agreement.

RECOMMENDATION

Having considered the principal factors and reasons discussed above, we consider that the transactions contemplated under the 2019 Master Purchase Agreement and the 2019 Master Sales Agreement are on normal commercial terms and in the ordinary and usual course of business of the Group, and that the terms of the transactions contemplated under the 2019 Master Purchase Agreement and the 2019 Master Sales Agreement and the respective Proposed Annual Caps for the three years ending 31 December 2022 are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the SGM to approve the transactions contemplated under the 2019 Master Purchase Agreement and the 2019 Master Sales Agreement and the respective Proposed Annual Caps of such transactions for the three years ending 31 December 2022.

Yours faithfully,
For and on behalf of
VBG Capital Limited
Yau Wai
Managing Director

Ms Yau Wai is a licensed person and the principal and the responsible officer of VBG Capital Limited registered with the Securities and Futures Commission of Hong Kong to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO and has over 16 years of experience in corporate finance industry.

* For identification purposes only

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTERESTS BY DIRECTORS

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company 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 pursuant to Divisions 7 and 8 of Part XV of the SFO or which were required, pursuant to Section 352 of the SFO to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the “**Model Code**”) as contained in Appendix 10 to the Listing Rules, were as follows:

(a) Long positions in Shares of the Company under the SFO:

Name of Director	Number of ordinary shares held, capacity and nature of interest			Percentage of the Company’s issued share capital
	Directly beneficially owned	Through controlled corporation <i>(Note)</i>	Total	
Mr Zheng Fu Shuang	200,019,000	584,984,000	785,003,000	12.23

Note: Mr Zheng Fu Shuang is interested 584,984,000 shares through Starry Nation Limited, a company which is ultimately beneficially owned by Mr Zheng Fu Shuang.

(b) Short positions in Shares of the Company under the SFO:

Name of Director	Number of ordinary shares held, capacity and nature of interest through controlled corporation	Percentage of the Company's issued share capital
Mr Zheng Fu Shuang (<i>Note</i>)	100,000,000	1.56

Note: Mr Zheng Fu Shuang is interested in these shares through Starry Nation Limited, a company which is ultimately beneficially owned by Mr Zheng Fu Shuang.

Save as disclosed above, as at Latest Practicable Date, none of the Directors had registered an interest or short position in the shares or underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Save as disclosed in this paragraph, as at the Latest Practicable Date, none of the Directors and chief executive of the Company had 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 pursuant to Divisions 7 and 8 of Part XV of the SFO or which were required, pursuant to Section 352 of the SFO to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Listing Rules.

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had been acquired or disposed of by or leased to any member of the Group or were proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2018, being the date to which the latest published audited consolidated accounts of the Company were made up.

No Director was materially interested in any contract or arrangement subsisting at the Latest Practicable Date which was significant in relation to the business of the Group taken as a whole.

3. SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES

As at the Latest Practicable Date, so far it is known to the Directors, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to section 336 of the SFO:

Name	Notes	Capacity and nature of interest	Long positions		Short positions	
			Number of ordinary shares held	Percentage of the Company's issued share capital	Number of ordinary shares held	Percentage of the Company's issued share capital
北大資產經營有限公司 (Peking University Asset Management Company Limited*) ("PKU Asset Management")	1	Through a controlled corporation	3,950,134,407	61.57	-	-
北大資源集團有限公司 (Peking University Resources Group Co., Ltd.*) ("PKU Resources Group")	2	Through a controlled corporation	3,950,134,407	61.57	-	-
北大資源集團控股有限公司 (Peking University Resources Group Holdings Co., Ltd.*)	3	Through a controlled corporation	3,950,134,407	61.57	-	-
北大資源集團城市開發有限公司 (Peking University Resources Group City Development Company Limited)	4	Through a controlled corporation	3,950,134,407	61.57	-	-
Peking Founder	5	Through a controlled corporation	3,950,134,407	61.57	-	-
Founder Information	6	Directly beneficially owned	3,850,134,407	60.01	-	-
		Through a controlled corporation	100,000,000	1.56	-	-

Name	Notes	Capacity and nature of interest	Long positions		Short positions	
			Number of ordinary shares held	Percentage of the Company's issued share capital	Number of ordinary shares held	Percentage of the Company's issued share capital
Mr Zheng Fu Shuang	7	Through a controlled corporation	785,003,000	12.23	100,000,000	1.56
Shine Crest Group Limited	8	Through a controlled corporation	584,984,000	9.12	100,000,000	1.56
Starry Nation Limited		Directly beneficially owned	584,984,000	9.12	100,000,000	1.56
Rongtong Fund Management Co. Ltd.	9	Through a controlled corporation	575,076,000	8.96	-	-
Rongtong Ronghai No. 10 SNIA QDII		Directly beneficially owned	575,076,000	8.96	-	-

Notes:

1. PKU Asset Management is deemed to be interested in the 3,950,134,407 shares of the Company under the SFO by virtue of its interest in PKU Resources Group.
2. PKU Resources Group is deemed to be interested in the 3,950,134,407 shares of the Company under the SFO by virtue of its interest in Peking University Resources Group Holdings Co., Ltd.
3. Peking University Resources Group Holdings Co., Ltd. is deemed to be interested in the 3,950,134,407 shares of the Company under the SFO by virtue of its interest in Peking University Resources Group City Development Company Limited.
4. Peking University Resources Group City Development Company Limited is deemed to be interested in the 3,950,134,407 shares of the Company under the SFO by virtue of its interest in Founder Information.
5. Peking Founder is deemed to be interested in the 3,950,134,407 shares of the Company under the SFO by virtue of its interest in Founder Information.
6. Founder Information is interested in the 3,950,134,407 shares of the Company, out of which 100,000,000 shares are charged to Fountain Luck Holdings Limited, which is indirectly wholly owned by Founder Information, by Starry Nation Limited.
7. Mr Zheng Fu Shuang is interested in 785,003,000 shares of the Company, out of which 200,019,000 shares are held directly by Mr Zheng Fu Shuang and 584,984,000 shares are held through Starry Nation Limited. The 100,000,000 shares of the Company held by Starry Nation Limited are charged to Fountain Luck Holdings Limited, which is indirectly wholly owned by Founder Information, and are classified as a short position of Starry Nation Limited under the SFO.
8. Shine Crest Group Limited is deemed to be interested in the 584,984,000 shares of the Company under the SFO by virtue of its interest in Starry Nation Limited.
9. Rongtong Fund Management Co. Ltd. is deemed to be interested in 575,076,000 shares of the Company under the SFO by virtue of its interest in Rongtong Ronghai No. 10 SNIA QDII.

Save as disclosed above, as at 30 June 2019, no person, other than the Directors, whose interests are set out in the section “Directors’ interests and short positions in shares and underlying shares” above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to section 336 of the SFO.

4. DIRECTORS’ SERVICE CONTRACTS

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

5. EXPERT

VBG Capital Limited is a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under SFO.

As at the Latest Practicable Date, VBG Capital Limited was not beneficially interested in the securities of any member of the Group and did not have any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, VBG Capital Limited did not have any direct or indirect interest in any assets which have been acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2018, being the date to which the latest published audited consolidated accounts of the Company were made up.

VBG Capital Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and references to its name, in the form and context in which they appear.

6. LITIGATION AND CLAIMS

The following is the litigation or claim of material importance pending or threatened against the members of the Group:

- (a) In December 2019, Xining City Intermediate People’s Court of Qinghai Province (the “**Court**”) has accepted Minmetals International Trust Company Limited* (五礦國際信託有限公司) (the “**Applicant**”)’s court application to launch a pre-litigation property attachment to Peking University Resources Group Investment Company Limited* (北大資源集團投資有限公司) (“**Resources Investment**”), an indirect wholly-owned subsidiary of the Company, and Wuhan Tianhe Jinrui Real Estate Development Company Limited* (武漢天合錦瑞房地產發展有限公司) (“**Tianhe Jinrui**”), an

indirect wholly-owned subsidiary of the Company. The property attachment application lodged by the Applicant is to freeze bank account balance or impound or seize other equivalent assets of Resources Investment and Tianhe Jinrui.

Save and except for the matter specified above, as at the Latest Practicable Date, neither the Company nor any other member of the Group was engaged in any litigations or claims and no litigations or claims of material importance is pending or threatened against the Company or any member of the Group.

7. DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at the Latest Practicable Date, none of the Directors or their respective associates had any personal interests in companies engaged in businesses, which compete or may compete with the Group.

8. MATERIAL CONTRACTS

The Group has not entered to any material contract (not being contracts entered into in the ordinary course of business) within the two years immediately preceding the Latest Practicable Date.

9. MATERIAL ADVERSE CHANGE

The Directors confirm that there has been no material adverse change in the financial or trading position of the Group since 31 December 2018, being the date to which the latest published audited consolidated accounts of the Company were made up.

10. GENERAL

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

The company secretary of the Company is Ms Cheang Yee Wah Eva *ACIS, ACS*.

The registered office of the Company is situated at Victoria Place, 5th Floor, 31 Victoria Street, Hamilton HM 10, Bermuda and its principal place of business in Hong Kong is situated at Unit 1408, 14th Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong. The Company's branch share registrar and transfer office in Hong Kong, Tricor Tengis Limited, is situated at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.

11. DOCUMENTS AVAILABLE FOR INSPECTION

The following documents will be available for inspection at the principal place of business of the Company in Hong Kong at Unit 1408, 14th Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong during normal business hours on any weekday (public holidays excluded) from the date of this circular up to and including the date of SGM:

- i. the bye-laws of the Company;
- ii. the annual reports of the Company for the two years ended 31 December 2018;
- iii. the 2019 Master Purchase Agreement;
- iv. the 2019 Master Sales Agreement;
- v. the letter from the Independent Board Committee, the text of which is set out on pages 21 to 22 of this circular;
- vi. the letter from the Independent Financial Adviser, the text of which is set out on pages 23 to 46 of this circular;
- vii. the letter of consent from the Independent Financial Adviser referred to in the paragraph headed Expert above; and
- viii. this circular.

* *For identification purposes only*

NOTICE OF SGM



北大资源
PKU RESOURCES

Peking University Resources (Holdings) Company Limited

北大資源(控股)有限公司

(Incorporated in Bermuda with limited liability)

(Stock code: 00618)

NOTICE IS HEREBY GIVEN that a special general meeting of Peking University Resources (Holdings) Company Limited (the “**Company**”) will be held at 11:30 a.m. on Thursday, 13 February 2020 at Unit 1408, 14th Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong for the purpose of considering and, if thought fit, passing the following resolutions:

ORDINARY RESOLUTIONS

“**THAT:**

- (a) the 2019 Master Purchase Agreement (as defined in the circular to the shareholders of the Company dated 24 January 2020) be and is hereby approved;
- (b) the 2019 Master Sales Agreement (as defined in the circular to the shareholders of the Company dated 24 January 2020) be and is hereby approved;
- (c) the Proposed Annual Caps in relation to the transactions contemplated under the 2019 Master Purchase Agreement for the three years ending 31 December 2022 be and are hereby approved;
- (d) the Proposed Annual Caps in relation to the transactions contemplated under the 2019 Master Sales Agreement for the three years ending 31 December 2022 be and are hereby approved;
- (e) any one Director be and is hereby authorised to do all such acts or things, as he/she may in his/her absolute discretion consider necessary or desirable, to give effect to the 2019 Master Purchase Agreement and the 2019 Master Sales Agreement, and the transactions contemplated thereunder.”

By Order of the Board

Peking University Resources (Holdings) Company Limited

Cheung Shuen Lung

Chairman

Hong Kong, 24 January 2020

NOTICE OF SGM

Notes:

1. Any shareholder entitled to attend and vote at the meeting is entitled to appoint another person as his/her proxy to attend and vote instead of his/her. A shareholder who is the holder of two or more shares may appoint more than one proxy to attend on the same occasion. A proxy need not be a shareholder of the Company but must be present in person at the meeting to represent the shareholder. Completion and return of the form of proxy will not preclude a shareholder from attending the meeting and voting in person. In such event, his/her form of proxy will be deemed to have been revoked.
2. Where there are joint holders of any share, any one of such joint holders may vote at the meeting, either personally or by proxy, in respect of such share as if he/she were solely entitled thereto, but if more than one of such joint holders be present at the meeting, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof.
3. In order to be valid, the instrument appointing a proxy together with the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of that power or authority must be deposited at the principal place of business of the Company in Hong Kong at Unit 1408, 14th Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong not less than 48 hours before the time for holding the meeting or any adjournment thereof.
4. For the purpose of entitlement to attend and vote at the special general meeting to be held on Thursday, 13 February 2020, the register of members of the Company will be closed from Tuesday, 11 February 2020 to Thursday, 13 February 2020 (both days inclusive), during which period no transfer of shares of the Company will be registered. In order to qualify for attending and voting at the special general meeting, all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Tengis Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Monday, 10 February 2020.
5. In accordance with Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"), Founder Information (Hong Kong) Limited is required to abstain from voting on the above ordinary resolutions.
6. At the meeting (or at any adjournment thereof), the Chairman of the meeting put the above resolutions to the vote by way of a poll as required under the Listing Rules and the Bye-laws of the Company. The poll results will be published on the websites of the Company at www.pku-resources.com and the website of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk following the meeting.