

31 October 2024

To the Independent Shareholders:

Dear Sir/Madam,

MANDATORY UNCONDITIONAL CASH OFFER BY
SHENWAN HONGYUAN CAPITAL (H.K.) LIMITED
FOR AND ON BEHALF OF HONG KONG YUFENGCHANG CO., LIMITED
TO ACQUIRE ALL THE ISSUED SHARES IN SUN KONG HOLDINGS LIMITED
(OTHER THAN THOSE ALREADY OWNED BY AND/OR AGREED TO BE
ACQUIRED BY HONG KONG YUFENGCHANG CO., LIMITED
AND PARTIES ACTING IN CONCERT WITH IT)

INTRODUCTION

Reference is made to the Announcement in relation to the Offer.

The Company was informed by the Vendor that on 4 September 2024 (after trading hours), the Offeror, the Vendor and Mr. Law entered into the Sale and Purchase Agreement, pursuant to which the Offeror acquired an aggregate of 23,115,000 Sale Shares, free from Encumbrances, at an aggregate consideration of HK\$14,446,875, which is equivalent to HK\$0.625 per Sale Share. The Sale Shares represent approximately 57.79% of the total issued share capital of the Company as at the Latest Practicable Date. The Completion took place on 13 September 2024. Details of the Acquisition are set out in the Announcement.

Immediately prior to Completion, the Offeror and parties acting in concert with it did not hold any Shares or control any voting rights over Shares. Upon Completion which took place on 13 September 2024 and as at the Latest Practicable Date, the Offeror was interested in 23,115,000 Shares, representing approximately 57.79% of the issued share capital of the Company. The Offeror is therefore required under Rule 26.1 of the Takeovers Code to make a mandatory unconditional cash offer for all the issued Shares (other than those already owned by the Offeror and parties acting in concert with it).

Immediately after Completion, the Vendor held 1,996,000 Shares, representing approximately 4.99% of the issued share capital of the Company as at the Latest Practicable Date.

The purpose of this Composite Document (of which this letter forms part) is to provide you with, among other things, (i) the details of the Offer (including the expected timetable and terms of the Offer); (ii) a letter of recommendation from the Independent Board Committee in relation to the Offer; and (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee in relation to the Offer, together with the Form of Acceptance.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

Under Rule 2.1 of the Takeovers Code, a board which receives an offer or is approached with a view to an offer being made, must, in the interests of shareholders, establish an independent committee of the board to make a recommendation as to whether the offer is fair and reasonable and as to acceptance of the offer.

The Independent Board Committee, comprising Mr. Fenn David, Mr. Wong Ka Chun Matthew and Mr. Chan Ting Fung, being all the independent non-executive Directors, in compliance with Rule 2.8 of the Takeovers Code, has been established for the purpose of making recommendations to the Independent Shareholders as to whether the Offer is fair and reasonable and as to acceptance of the Offer.

With the approval of the Independent Board Committee, Alpha Financial Group Limited has been appointed by the Company to act as the Independent Financial Adviser pursuant to Rule 2.1 of the Takeovers Code to advise the Independent Board Committee in respect of the Offer, and in particular, as to whether the Offer is fair and reasonable and as to the acceptance of the Offer.

The full texts of the letter from the Independent Board Committee addressed to the Independent Shareholders and the letter from the Independent Financial Adviser addressed to the Independent Board Committee and the Independent Shareholders are set out in this Composite Document. You are advised to read both letters and the additional information contained in the appendices to this Composite Document carefully before taking any action in respect of the Offer.

PRINCIPAL TERMS OF THE OFFER

As disclosed in the “Letter from Shenwan Hongyuan”, Shenwan Hongyuan is making the Offer for and on behalf of the Offeror in accordance with the Takeovers Code on the following basis:

For each Offer Share..... HK\$0.625 in cash

As at the Latest Practicable Date, there were 40,000,000 Shares in issue and the Company did not have any outstanding options, warrants or derivatives or securities which are convertible or exchangeable into Shares and had not entered into any agreement for the issue of such options, derivatives, warrants or securities which are convertible or exchangeable into Shares.

Save for the irrevocable undertaking as set out in the paragraph headed “Irrevocable Undertaking not to accept the Offer” below, as at the Latest Practicable Date, none of the Offeror or parties acting in concert with it had received any irrevocable commitment to accept or not to accept the Offer. The Offer Shares to be acquired under the Offer shall be fully paid and shall be acquired free from all Encumbrances and together with all rights and benefits accruing and attaching thereto as at the date on which the Offer is made, being the date of the despatch of this Composite Document or subsequently becoming attached thereto, including all rights to any dividend or other distribution and any return of capital, if any, declared, made or paid or agreed to be made or paid on or after the date on which the Offer is made, being the date of the despatch of this Composite Document.

As at the Latest Practicable Date, the Company had not declared any dividend and did not have any intention to make, declare or pay any dividend or other distribution before the close of the offer period (as defined in the Takeovers Code) of the Offer.

The Offer is unconditional in all respects.

Further details of the Offer are set out in the “Letter from Shenwan Hongyuan” and the additional information contained in appendices to the Composite Document and the accompanying Form of Acceptance.

Irrevocable Undertaking not to accept the Offer

As at the Latest Practicable Date, the Vendor held 1,996,000 Remaining Shares, representing approximately 4.99% of the issued share capital of the Company. In accordance with terms of the Sale and Purchase Agreement, the Vendor and Mr. Law have given the Irrevocable Undertaking in favour of the Offeror, pursuant to which, the Vendor has undertaken that it shall, and Mr. Law has undertaken to procure the Vendor that the Vendor shall during the Offer Period (a) not accept the Offer in respect of the Remaining Shares, and (b) not offer, sell, give, transfer, pledge, charge, dispose of, or create or agree to create any encumbrance of or otherwise create any interests on the Remaining Shares. The Irrevocable Undertaking will terminate immediately and cease to be binding upon the closure of the Offer.

Save as disclosed above, there are no restrictions on the disposition of the Remaining Shares held by the Vendor under the terms of the Sale and Purchase Agreement after the close of the offer period (as defined in the Takeovers Code) nor other arrangement between the Offeror and the Vendor regarding the Remaining Shares.

INFORMATION ON THE GROUP

The Company is a company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed on GEM of the Stock Exchange (Stock Code: 8631). The Company is an investment holding company. The Group is principally engaged in the sale of diesel oil and related products in Hong Kong. The services of the Group include sourcing and transportation of diesel oil and related products in Hong Kong.

Financial and general information in relation to the Group are set out in Appendix II “Financial Information of the Group” and Appendix III “General Information of the Group” to the Composite Document.

SHAREHOLDING STRUCTURE OF THE COMPANY

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

	Immediately prior to Completion		Immediately after Completion and as at the Latest Practicable Date	
	Numbers of Shares	Approximate % (Note 1)	Numbers of Shares	Approximate % (Note 1)
Shareholders				
Offeror ^(Note 2)	–	–	23,115,000	57.79
Offeror and parties acting in concert with it	–	–	23,115,000	57.79
Vendor ^(Note 3)	<u>25,111,000</u>	<u>62.78</u>	<u>1,996,000</u>	<u>4.99</u>
Sub-total	25,111,000	62.78	25,111,000	62.78
Public Shareholders	<u>14,889,000</u>	<u>37.22</u>	<u>14,889,000</u>	<u>37.22</u>
Total	<u><u>40,000,000</u></u>	<u><u>100.00</u></u>	<u><u>40,000,000</u></u>	<u><u>100.00</u></u>

Notes:

- The percentage figures are calculated on the basis of 40,000,000 issued Shares, which represents the entire issued share capital of the Company, as at the Latest Practicable Date.

2. The Offeror is directly and wholly owned by Yufengchang International, which in turn is directly, wholly and beneficially owned by Mr. Wang.
3. The Vendor is directly, wholly and beneficially owned by Mr. Law.

Save for the 1,996,000 Shares which is indirectly owned by Mr. Law through the Vendor, none of the Directors hold any Shares as at the Latest Practicable Date.

INFORMATION ON THE OFFEROR

Your attention is drawn to the section headed “Information on the Offeror” in the “Letter from Shenwan Hongyuan” and Appendix IV “General Information of the Offeror” to the Composite Document.

FUTURE INTENTIONS OF THE OFFEROR REGARDING THE GROUP

The Board has noted the rationale of the Offeror and Mr. Wang’s investment in the Company as set out in the section headed “Intentions of the Offeror in relation to the Group”, and in particular noted that the Offeror considers and confirms that (i) it is intended that the Group will continue with the existing business of the Group; and (ii) it does not have the intention to (a) introduce any major changes to the existing business of the Group or (b) discontinue the employment of any of the Group’s employees or (c) redeploy the fixed assets of the Group other than in its ordinary course of business. Furthermore, the Offeror has no plans to downsize the Company’s existing business. Nonetheless, the Offeror reserves the right to make any changes that it deems necessary or appropriate to the Group’s business and operations to optimise the value of the Group, including reassessing, adjusting and/or expanding the scale of the Company’s existing business and considering whether to explore further opportunities as part of and/or in synergy with the existing business of the Group in due course.

As at the Latest Practicable Date, no investment or business opportunity has been identified nor has the Offeror entered into any agreements, arrangements, understandings or negotiations in relation to the injection of any assets or business into the Group.

The Board is pleased to note the Offeror intends to continue the existing principal business of the Group and the employment of the employees. The Board is willing to render reasonable cooperation to the Offeror to support its intentions regarding the Group if it considers that it is in the interests of the Company and Shareholders as a whole.

PROFIT ESTIMATE

Reference is made to the Profit Estimate, namely, (i) the Profit Warning Statements (as defined in the Profit Warning Announcement) and (ii) section 4 of Appendix II in this Composite Document which states that:

- (i) total revenue of the Group for the four months ended 31 July 2024 decreased from approximately HK\$42.8 million, by approximately HK\$35.6 million, or approximately 83.3%, to approximately HK\$7.1 million, as compared to that of the Group for the four months ended 31 July 2023, primarily due to the decrease in demand from major logistics customers of the Company;
- (ii) the gross profit margin of the Group decreased from approximately 7.7% for the four months ended 31 July 2023 to approximately 3.7% for the four months ended 31 July 2024, which was due to the decrease in revenue whereas the fixed costs including direct labour, repair and maintenance cost of and depreciation of diesel tanks remained generally the same;
- (iii) the Group recorded a loss and total comprehensive loss attributable to owners of the Company of approximately HK\$2.3 million for the four months ended 31 July 2024, in comparison to a profit and total comprehensive income attributable to owners of the Company of HK\$0.8 million for the four months ended 31 July 2023, which was mainly attributable to (a) the decrease in demand from major logistics customers of the Company as detailed above; and (b) the increase in administrative and operating expenses mainly resulting from the amortization cost of ERP system;
- (iv) the five largest customers of the Group for the four months ended 31 July 2024 were different from those of the Group for the four months ended 31 July 2023, which was primarily due to the decrease in demand from major logistics customers of the Company. Despite the changes in amount supplied to us thus affecting the ranking order, the five largest suppliers of the Company remained generally the same for the four months ended 31 July 2023 and 2024;
- (v) pursuant to the Loan Agreements, the Group had director's loans amounting to approximately HK\$12.0 million as at the Latest Practicable Date with details as follows: (a) a director's loan granted by Mr. Law (who is an executive director of the Company and director of Wing Ko as the lender and the Company as the borrower in the amount of HK\$3,000,000 on 24 June 2024 and repayable on 23 June 2025 with an interest rate of 6% per annum; (b) a director's loan granted by Mr. Law as the lender and Wing Ko as the borrower in the amount of HK\$515,000 on 4 July 2024 and repayable on 3 July 2025 with an interest rate of 6% per annum; (c) a director's loan granted by Mr. Law as the lender and Wing Ko as the borrower in the amount of HK\$6,900,000 on 17 September 2024 and repayable on 16 September 2025 with an interest rate of 6% per annum; and (d) a director's loan granted by Mr. Law as the lender and Wing Ko as the borrower in the amount of HK\$1,600,000 on 25 September 2024 and repayable on 24 September 2025 with an interest rate of 6% per annum, which are unsecured; and

- (vi) on 22 October 2024, Mr. Law had entered into the Supplemental Agreements with each of the Company and Wing Ko, respectively, under which (a) all interest accrued up to the date of the respective supplemental agreement under the director's loans pursuant to the Loan Agreements shall be waived; and (b) the director's loans pursuant to the Loan Agreements shall not carry any interest from the date of the respective supplemental agreement, pursuant to the Supplemental Agreements.

Such loans granted by Mr. Law under the Loan Agreements (as amended by the Supplemental Agreements) to the Group were intended to support the working capital sufficiency of the Group, which included the repayment of an overdraft facility granted by a licensed bank of HK\$5 million subject to a change of control clause, so as to facilitate the completion of the Sale and Purchase Agreement.

The Profit Estimate of the Group for the four months ended 31 July 2024 prepared by the Company's Directors is based on the unaudited consolidated management financial statements of the Group for the four months ended 31 July 2024 with the comparative figures for the corresponding period in 2023. The Profit Estimate has been prepared, in all material aspects, in accordance with the accounting policies consistent with those normally adopted by the Group set out in the annual report of the Group for the year ended 31 March 2024.

With the commencement of the Offer Period, pursuant to Rule 10 of the Takeovers Code, the Profit Estimate (including the Profit Warning Statements as defined in the Profit Warning Announcement) constitutes a profit forecast and must be reported on by the Company's financial adviser and auditors in accordance with Rule 10.4 of the Takeovers Code.

In this regard, the Profit Estimate has been reported on by Forvis Mazars CPA Limited, Certified Public Accountant and Public Interest Entity Auditor registered in accordance with the Accounting and Financial Reporting Council Ordinance, and Alpha Financial Group Limited, the Independent Financial Adviser. Forvis Mazars CPA Limited is of the opinion that, so far as the accounting policies and calculations are concerned, the Profit Estimate has been properly complied in accordance with a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in the annual report of the Group for the year ended 31 March 2024. The Independent Financial Adviser is satisfied that the Profit Estimate has been made by the Directors with due care and consideration. Your attention is drawn to the reports issued by Forvis Mazars CPA Limited and the Independent Financial Adviser on the statement of the Profit Estimate set out in Appendix VI and V to this Composite Document, respectively.

COMPOSITION OF THE BOARD

As at the Latest Practicable Date, the Board comprises Mr. Law and Mr. Li Isaiah as executive Directors and Mr. Fenn David, Mr. Wong Ka Chun Matthew and Mr. Chan Ting Fung as independent non-executive Directors.

The Offeror intends to change the composition of the board of directors of the Company and nominate new directors to the board of directors of the Company no earlier than the earliest time permitted under the Takeovers Code. Any changes to the board of directors of the Company will be made in compliance with the Takeovers Code and the GEM Listing Rules and further announcement will be made as and when appropriate.

PUBLIC FLOAT AND MAINTAINING THE LISTING STATUS OF THE COMPANY

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

- (i) a false market exists or may exist in the trading of the Shares; or
- (ii) there are insufficient Shares in public hands to maintain an orderly market, it will consider exercising its discretion to suspend dealing in the Shares.

The Offeror intends the Company to remain listed on the GEM after the close of the Offer. The director of the Offeror and the new directors to be appointed to the Board of the Company, if any, will jointly and severally undertake to the Stock Exchange to take appropriate steps to ensure that sufficient public float exists in the Shares. In this connection, in the event that the public float of the Company falls below 25% upon the close of the Offer, the Offeror will, as soon as practicable, dispose of such number of Shares either directly in the market or through a placing agent to be appointed by the Offeror to ensure that the public float requirement under the GEM Listing Rules can be met. No such arrangements have been confirmed or put in place as at the Latest Practicable Date. Further announcement(s) will be made in accordance with the requirements of the GEM Listing Rules and the Takeovers Code as and when appropriate.

RECOMMENDATION

Your attention is drawn to the additional information contained in the appendices to this Composite Document. You are also recommended to read carefully Appendix I “Further Terms and Procedures for Acceptance of the Offer” to this Composite Document and the accompanying Form of Acceptance for further details in respect of the procedures for acceptance of the Offer.

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



By order of the Board of
Sun Kong Holdings Limited
Law Ming Yik
Chairman and executive Director