

9 April 2025

Dear Sir or Madam,

**MANDATORY UNCONDITIONAL CASH OFFER BY
YELLOW RIVER SECURITIES LIMITED FOR AND ON BEHALF OF
CHINA ALLIANCE VENTURE LIMITED TO ACQUIRE ALL THE ISSUED
SHARES OF CHINA WACAN GROUP COMPANY LIMITED (OTHER THAN
THOSE ALREADY OWNED AND/OR AGREED TO BE ACQUIRED BY
CHINA ALLIANCE VENTURE LIMITED AND/OR PARTIES ACTING IN
CONCERT WITH IT)**

INTRODUCTION

References are made to (i) the Joint Announcement in relation to, among other things, the Sale and Purchase Agreement and the Offer; and (ii) the joint announcement of the Offeror and the Company dated 13 February 2025 in relation to the delay in despatch of the Composite Document. Terms used in this letter shall have the same meanings as defined in the Composite Document unless the context otherwise requires.

The Sale and Purchase Agreement

As disclosed in the Joint Announcement, on 15 January 2025 (after trading hours), the Vendor, the Guarantor and the Offeror entered into the Sale and Purchase Agreement pursuant to which the Vendor agreed to sell and the Offeror agreed to purchase the Sale Shares, being 195,000,000 Shares, representing 62.5% of the total issued share capital of the Company as at the date of the Joint Announcement, for a total cash consideration of HK\$50,000,000 (representing approximately HK\$ \$0.2564 per Sale Share).

The Consideration was agreed between the Offeror and the Vendor after arm's length negotiations, taking into account (i) deteriorating operating performance of the Group, evidenced by the decrease in total revenue of the Group from approximately HK\$122.5 million for the year ended 31 December 2022 ("FY2022") to approximately HK\$86.7 million for the year ended 31 December 2023 ("FY2023") and further to approximately HK\$38.4 million for the six months ended 30 June 2024 ("1H2024"); (ii) loss and total comprehensive expense recorded by the Company of approximately HK\$56.2 million, approximately HK\$51.6 million and approximately HK\$25.5 million for FY2022, FY2023 and 1H2024, respectively; (iii) the premium to the Group's consolidated net assets value attributable to the Shareholders per Share as at 31 December 2023 and 30 June 2024, respectively, details of which are set forth in the paragraph headed "The Offer – Comparison of value" in this letter; and (iv) the Company's average daily trading volume for the 30 consecutive trading days immediately prior to and including the Last Trading Day represented merely approximately 0.2% of the total issued share capital of the Company, which suggests a relatively limited market liquidity for the Shares.

Completion took place on the Completion Date, being 15 January 2025.

The Consideration has been settled in full by the Offeror by drawing down the Sale Shares Facility on the Completion Date. The Sale Shares Facility is secured by (i) the Sale Shares Facility Share Charge; (ii) the Sale Shares Facility Personal Guarantee; (iii) a subordination agreement executed by the Offeror and Mr. Zhou which primarily provides that the Offeror is obliged to first repay all outstanding amount due to Ultra Accord as lender under the Sale Shares Facility before any repayment of loans due from the Offeror to its sole shareholder, namely, Mr. Zhou, from time to time (if any); and (iv) a custodian agreement executed by the Offeror, Ultra Accord and Yellow River Securities, pursuant to which the parties agreed that Yellow River Securities shall be appointed as the custodian to hold the Sale Shares, which were deposited into a designated account in the Offeror's name, in favour of Ultra Accord as security for the due performance of the repayment by the Offeror under the Sale Shares Facility. The Sale Shares Facility Share Charge shall become enforceable by Ultra Accord immediately upon the Offeror having breached or defaulted upon its obligations under the Sale Shares Facility. As at the Latest Practicable Date, the Offeror has not repaid all its obligation under the Sale Shares Facility, and the Offeror was not in breach or in default of the Sale Shares Facility.

Ultra Accord is a licensed money lender under the Money Lenders Ordinance (Chapter 163 of the laws of Hong Kong) and is wholly and beneficially owned by Ms. Chu Chui Ling, who is a Hong Kong citizen and an investor with investments mainly in listed securities and properties in Hong Kong and with experience in the money lending sector in Hong Kong. Ultra Accord and Ms. Chu Chui Ling are parties acting in concert with the Offeror and Mr. Zhou under class (9) of the definition of acting in concert under the Takeovers Code.

Save as aforesaid, the Offeror confirmed that the Offeror and Mr. Zhou had no other relationship with Ultra Accord or Ms. Chu Chui Ling. Ultra Accord and Ms. Chu Chui Ling were not Shareholders as at the Latest Practicable Date.

Pursuant to the Sale and Purchase Agreement, Mr. Cheung Kwok Fai Adam, as the Guarantor, unconditionally and irrevocably:

- (a) guaranteed to the Offeror the due and punctual performance and observance by the Vendor of all its respective obligations, commitments, undertakings, warranties, indemnities and covenants under or pursuant to the Sale and Purchase Agreement; and

- (b) agree to indemnify the Offeror against all losses, damages, costs and expenses (including legal costs and expenses) which the Offeror may reasonably incur or suffer through or arising from any breach by the Vendor of such obligations, commitments, warranties, undertakings, indemnities or covenants.

The liability of the Guarantors as aforesaid shall not be released or diminished by any arrangements or alterations of terms (whether of the Sale and Purchase Agreement or otherwise) or any forbearance, neglect or delay in seeking performance of the obligations thereby imposed or any granting of time for such performance.

Mandatory unconditional cash offer

Immediately prior to Completion, none of the Offeror, its ultimate beneficial owner and parties acting in concert with any of them owned, controlled or had direction over any Share or other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company. Immediately following Completion which took place on the Completion Date and as at the Latest Practicable Date, the Offeror, its ultimate beneficial owner and parties acting in concert with any of them were interested in an aggregate 195,000,000 Shares, representing approximately 62.5% of the total issued share capital of the Company.

The Offeror is therefore required under Rule 26.1 of the Takeovers Code to make the Offer for all the issued Shares not already owned or agreed to be acquired by the Offeror and parties acting in concert with it. The Offer will be made to the Independent Shareholders. Yellow River Securities is making the Offer for and on behalf of the Offeror.

Purpose of this letter

This letter sets out, among other things, the principal terms of the Offer, together with the information on the Offeror and the Offeror's intentions regarding the Group. Further details of the Offer and the procedures for accepting and settlement of the Offer are also set out in Appendix I to this Composite Document and the accompanying Form of Acceptance. The Independent Shareholders are strongly advised to consider carefully the information contained in the "Letter from the Board", the "Letter from the Independent Board Committee" to the Independent Shareholders, the "Letter from the Independent Financial Adviser" to the Independent Board Committee and the Independent Shareholders and the appendices as set out in this Composite Document and to consult their professional advisers if in doubt before reaching a decision as to whether or not to accept the Offer.

THE OFFER

Principal terms of the Offer

Yellow River Securities is making the Offer, for and on behalf of the Offeror, to acquire the Offer Shares on the following basis:

The Offer

Offer Price for each Offer Share HK\$0.2565 in cash

The Offer Price of HK\$0.2565 per Offer Share is approximately equal to but not lower than the purchase price per Sale Share of approximately HK\$0.2564 per Sale Share paid by the Offeror under the Sale and Purchase Agreement.

As at the Latest Practicable Date, the Company has 312,000,000 Shares in issue and the Company does not have any other outstanding Shares, options, warrants, derivatives or other securities which are convertible into Shares or exchangeable into Shares or other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) and has not entered into any agreement for the issue of such options, derivatives, warrants or other relevant securities which are convertible or exchangeable into Shares.

The Offer is unconditional in all respects and is extended to all Independent Shareholders in accordance with the Takeovers Code.

Under the terms of the Offer, the Offer Shares to be acquired under the Offer shall be fully paid and free from all encumbrances and together with all rights and benefits attached thereto as at the date of the Composite Document or subsequently becoming attached to them, including all rights to any dividend or other distribution declared, made or paid on or after the date on which the Offer is made, that is, the date of despatch of the Composite Document.

The procedures for acceptance and further details of the Offer are set out in Appendix I to this Composite Document and the accompanying Form of Acceptance.

Comparison of value

The Offer Price of HK\$0.2565 per Offer Share represents:

- a discount of approximately 70.85% to the closing price of HK\$0.8800 per Share as quoted on the Stock Exchange on the Last Trading Day;
- a discount of approximately 70.72% to the average closing price of approximately HK\$0.8760 per Share as quoted on the Stock Exchange for the five (5) consecutive trading days immediately prior to and including the Last Trading Day;
- a discount of approximately 70.85% to the average closing price of approximately HK\$0.8800 per Share as quoted on the Stock Exchange for the ten (10) consecutive trading days immediately prior to and including the Last Trading Day;

- a discount of approximately 70.51% to the average closing price of approximately HK\$0.8697 per Share as quoted on the Stock Exchange for the thirty (30) consecutive trading days immediately prior to and including the Last Trading Day;
- a discount of approximately 43.00% to the closing price of HK\$0.45 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and
- a premium of approximately 714.29% to the Group's audited consolidated net assets value attributable to the Shareholders per Share of approximately HK\$0.0315 as at 31 December 2024 (based on a total of 312,000,000 Shares as at the Latest Practicable Date and the Group's audited consolidated net assets value attributable to the Shareholders of approximately HK\$9,830,000 as at 31 December 2024).

Highest and lowest Share prices

During the Relevant Period, (a) the highest closing price of the Shares as quoted on the Stock Exchange was HK\$1.20 per Share on 17 September 2024; and (b) the lowest closing price of the Shares as quoted on the Stock Exchange was HK\$0.275 per Share on 8 July 2024.

Total consideration for the Offer Shares

As at the Latest Practicable Date, the Company has 312,000,000 Shares in issue and the Company does not have any other outstanding Shares, options, warrants, derivatives or other securities which are convertible into Shares or exchangeable into Shares or other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) and has not entered into any agreement for the issue of such options, derivatives, warrants or other relevant securities which are convertible or exchangeable into Shares.

Assuming that there is no change in the issued share capital of the Company and based on the Offer Price of HK\$0.2565 per Offer Share, the total issued share capital of the Company is valued at HK\$80,028,000. As the Offeror, its ultimate beneficial owner and parties acting in concert with any of them hold 195,000,000 Shares as at the Latest Practicable Date, 117,000,000 Shares are subject to the Offer. Based on the Offer Price of HK\$0.2565 per Offer Share, the consideration of the Offer would be HK\$30,010,500 in the event that the Offer is accepted in full.

Financial resources available for the Offer

The maximum amount of cash payable by the Offeror in respect of the consideration payable upon full acceptances of the Offer is HK\$30,010,500, assuming there is no change in the issued share capital of the Company from the Latest Practicable Date up to the close of the Offer.

The Offeror intends to finance the consideration payable under the Offer by the Offer Facility of up to HK\$30.0 million granted to it by Ultra Accord and its own internal resources. The Offer Facility is secured by (i) the Offer Facility Share Charge; (ii) the Offer Facility Personal Guarantee; (iii) a subordination agreement executed by the Offeror and Mr. Zhou which primarily provides that the Offeror is obliged to first repay all outstanding amount due to Ultra Accord as lender under the Offer Facility before any repayment of loans due from the Offeror to its sole shareholder, namely, Mr. Zhou, from time to time (if any); and (iv) a custodian agreement executed by the Offeror, Ultra Accord and Yellow River Securities, pursuant to which the parties agreed that Yellow River Securities shall be appointed as the custodian to hold the Offer Shares to be acquired by the Offeror under the Offer, which shall be deposited into a designated account in the Offeror's name, in favour of Ultra Accord as security for the due performance of the repayment by the Offeror under the Offer Facility. The Offer Facility Share Charge shall become enforceable by Ultra Accord immediately upon the Offeror having breached or defaulted upon its obligations under the Offer Facility.

The Offeror does not intend that the payment of interest on, repayment of or provision of security for any liability (contingent or otherwise) under the Sale Shares Facility or the Offer Facility will depend to any significant extent on the business of the Company.

Astrum Capital, the financial adviser to the Offeror in respect of the Offer, is satisfied that sufficient financial resources are, and will remain, available to the Offeror to satisfy the consideration payable upon full acceptance of the Offer.

Effect of accepting the Offer

By accepting the Offer, the Independent Shareholders will be deemed to warrant that all the Offer Shares to be sold by such person under the Offer are fully paid and free from all encumbrances and together with all rights and benefits attaching thereto as at the date of this Composite Document or subsequently becoming attached to them, including but not limited to the right to receive in full all dividends, distributions and any return of capital, if any, which may be made or declared or agreed to be made or declared, and the record date of which falls on or after the date on which the Offer is made, being the date of despatch of this Composite Document.

The Company confirmed that as at the Latest Practicable Date, (i) it has not declared any dividend which is not yet paid; and (ii) it does not have any intention to declare or pay any future dividend or make other distributions prior to and including the Closing Date.

The Offer is unconditional in all respects and will not be conditional upon acceptances being received in respect of a minimum number of Shares or any other conditions, and will remain open for acceptance from the date of this Composite Document until 4:00 p.m. on the Closing Date. Acceptance of the Offer will be irrevocable and not capable of being withdrawn, except as permitted under the Takeovers Code, details of which are set out in the section headed "5. Right of withdrawal" in Appendix I to this Composite Document.

Payment

Payment in cash in respect of acceptances of the Offer will be made as soon as possible but in any event no later than seven (7) Business Days after the date of receipt of a duly completed acceptance of the Offer. Relevant documents evidencing title of the Offer Shares must be received by or on behalf of the Offeror to render such acceptance of the Offer complete and valid.

No fractions of a cent will be payable and the amount of cash consideration payable to an Independent Shareholder who accepts the Offer will be rounded up to the nearest cent.

Hong Kong Stamp duty

The seller's Hong Kong ad valorem stamp duty arising in connection with acceptances of the Offer will be payable by the relevant Independent Shareholders at a rate of 0.1% of (i) the market value of the Offer Shares; or (ii) the consideration payable by the Offeror in respect of the relevant acceptances of the Offer, whichever is higher, and the amount of such duty will be deducted from the cash amount payable by the Offeror to the relevant Independent Shareholders accepting the Offer.

The Offeror will arrange for payment of the seller's Hong Kong ad valorem stamp duty on behalf of the relevant Independent Shareholders accepting the Offer and pay the buyer's Hong Kong ad valorem stamp duty in connection with the acceptance of the Offer and the transfer of the Shares in accordance with the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong).

Taxation advice

The Independent Shareholders are recommended to consult their own professional advisers if they are in any doubt as to the taxation implications of accepting or rejecting the Offer. None of the Offeror, parties acting in concert with the Offeror, the Company, the Vendor, the Guarantor, Astrum Capital, Yellow River Securities and their respective ultimate beneficial owners, directors, advisers, agents or associates or any other person involved in the Offer accepts responsibility for any taxation effects on, or liabilities of, any persons as a result of their acceptance or rejection of the Offer.

Overseas Shareholders

As the Offer to persons not being resident in Hong Kong may be affected by the laws of the relevant jurisdiction in which they are resident, Overseas Shareholders who are citizens, residents or nationals of a jurisdiction outside Hong Kong should observe any applicable legal or regulatory requirements and, where necessary, seek legal advice. It is the sole responsibility of the Overseas Shareholders who wish to accept the Offer to satisfy themselves as to the full observance of the laws and regulations of the relevant jurisdictions in connection with the acceptance of the Offer (including the obtaining of any governmental, exchange control or other consent which may be required, the compliance with other necessary formalities and the payment of any transfer or other taxes due from the accepting Shareholders in respect of such jurisdictions).

Any acceptance of the Offer by such Overseas Shareholders will be deemed to constitute a representation and warranty from such Overseas Shareholders to the Offeror that the applicable local laws and requirements have been complied with. The Overseas Shareholders should consult their professional advisers if in doubt. Based on the register of members of the Company, as at the Latest Practicable Date, there is no Overseas Shareholder.

INFORMATION OF THE GROUP

The Company was incorporated in the Cayman Islands with limited liability and its issued Shares have been listed on the Main Board since 16 August 2019. The Group is currently engaged in (i) the provision of wet trades works and wet trades related ancillary works in Hong Kong; (ii) the provision of construction information technology services in Hong Kong; and (iii) the beauty and healthcare business in the PRC.

The financial information of the Group is set out in Appendix II to this Composite Document. Your attention is also drawn to the general information in relation to the Group as set out in Appendix III to this Composite Document.

INFORMATION OF THE OFFEROR

The Offeror is a company incorporated in Hong Kong with limited liability on 9 January 2025 and is principally engaged in investment holding. As at the Latest Practicable Date, save for entering into of the Sale and Purchase Agreement, the Offeror did not engage in any other business activities. As at the Latest Practicable Date, the Offeror is beneficially wholly-owned by Mr. Zhou, the chairman of the Board and an executive Director.

Mr. Zhou, aged 44, was appointed as an executive Director on 6 September 2024 and the chairman of the Board on 30 October 2024. Leveraging his experience in several business areas including skincare and beauty products, health management, online sales, digital technology and leisure activities, Mr. Zhou is primarily responsible for the future potential business expansion and diversification of the Group in the PRC, in particular the Group's new beauty business. Mr. Zhou is the sole shareholder and sole director of the Offeror. From April 2004 to December 2011, Mr. Zhou served as a deputy general manager of Shenzhen Jiameiran Technology Company Limited* (深圳市嘉美然科技有限公司), a company principally engaged in the sales of skincare products and beauty instruments and he was responsible for the company's sales and marketing management. From January 2012 to August 2017, Mr. Zhou served as a president of Shenzhen Runfei Technology Company Limited* (深圳潤妃科技有限公司), which is also principally engaged in the sales of skincare products and beauty instruments. Since September 2017 until present, Mr. Zhou has been appointed as the chairman of Tofuls International Holdings Group Co., Ltd.* (同芙國際控股集團有限公司), which is principally engaged in health and wellness management consultation. Since June 2023 until present, Mr. Zhou has been appointed as the chairman of World Chinese Business (Guangdong) Technology Co., Ltd.* (世界華商(廣東)科技有限公司), which is principally engaged in providing digital technology services. Since November 2023 until present, Mr. Zhou has been appointed as the chairman of Shihua International Club Company Limited* (世華國際俱樂部有限公司), which is principally engaged in providing information consulting services in the areas of health and leisure activities. Mr. Zhou completed the business administration course of Business School of Guangxi University (廣西大學商學院) (currently known as the School of Business, Guangxi University (廣西大學工商管理學院)) in July 2003.

INTENTION OF THE OFFEROR REGARDING THE GROUP

As at the Latest Practicable Date, the Offeror was the controlling shareholder of the Company and the Offeror, its ultimate beneficial owner and parties acting in concert with any of them were interested in approximately 62.5% of the issued share capital of the Company.

The Offeror intends to continue the existing business of the Group after completion of the Offer. The Offeror also intends to review the operation and business activities of the Group to formulate a long-term business strategy for the Group. Subject to the results of the review, the Offeror may explore other business opportunities, seek to expand the geographical coverage of the principal business of the Group in addition to the market of Hong Kong and consider whether any asset disposals, asset acquisitions, business rationalisation, business divestment, fund raising, restructuring of the business and/or business diversification will be appropriate in order to enhance the long-term growth potential of the Group.

As at the Latest Practicable Date, no investment or business opportunity has been identified nor have the Offeror entered into any agreement, arrangement, understanding or negotiation in relation to the injection of any assets or business into the Group, or disposal of or downsizing of the Group's existing business. Should such corporate actions materialise, further announcement(s) will be made in accordance with the Listing Rules.

The Offeror intends to continue the employment of the existing management and employees of the Group (except for a proposed change to the members of the Board at a time no earlier than that permitted under the Listing Rules and the Takeovers Code or such later time as the Offeror considers to be appropriate).

The Offeror intends to nominate new director(s) to the Board with effect from a date which is no earlier than such date as permitted under the Listing Rules and the Takeovers Code or such later date as the Offeror considers to be appropriate. As at the Latest Practicable Date, the Offeror has not identified any potential candidate to be appointed as a new director to the Board. Any changes to the members of the Board will be made in compliance with the Takeovers Codes and/or the Listing Rules and further announcement(s) will be made as and when appropriate.

Save for the Offeror's intention regarding the Group as set out above, (i) the Offeror has no intention to make material changes to the employment of the management and employees of the Group (except for a proposed change to the members of the Board at a time no earlier than that permitted under the Listing Rules and the Takeovers Code or such later time as the Offeror considers to be appropriate); (ii) the Offeror has no intention to dispose of or redeploy the assets of the Group other than those in its ordinary and usual course of business; and (iii) the Offeror has no intention, understanding, negotiation or arrangement (concluded or otherwise) to downsize, cease or dispose of existing business of the Group.

PUBLIC FLOAT AND MAINTAINING THE LISTING STATUS OF THE COMPANY

The Offeror will, together with the Company, use reasonable endeavours to maintain the listing status of the Shares on the Stock Exchange and procure that not less than 25% of the entire issued share capital in the Company be held by the public in compliance with the Listing Rules.

The Stock Exchange has stated that if, 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) that there are insufficient Shares in public hands to maintain an orderly market,

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

Therefore, it should be noted that, upon the close of the Offer, there may be insufficient public float of the Shares and the trading in the Shares may be suspended until sufficient public float exists for the Shares.

The Offeror intends the Company to remain listed on the Stock Exchange. The director of the Offeror (namely Mr. Zhou), the Directors (namely Mr. Zhou, Mr. Cheung Kwok Fai Adam, Mr. Ng Sheung Chung, Mr. Ma Kan Sun, Ms. Ding Xin, Mr. Zhu Qi and Ms. Zhang Lingke) and any new Director(s) to be appointed to the Board will jointly and severally undertake to the Stock Exchange to take appropriate steps to ensure that sufficient public float exists in the Shares.

ACCEPTANCE AND SETTLEMENT OF THE OFFER

Your attention is drawn to the details regarding the procedures for acceptance of the Offer as set out in Appendix I to this Composite Document and the accompanying Form of Acceptance.

COMPULSORY ACQUISITION

The Offeror does not intend to avail itself of any powers of compulsory acquisition of any outstanding Offer Shares not acquired under the Offer after the close of the Offer.

GENERAL

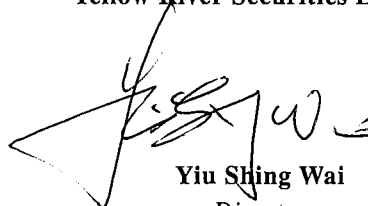
To ensure equality of treatment of all Independent Shareholders, those Independent Shareholders who hold the Shares as nominee for more than one beneficial owner should, as far as practicable, treat the holding of each beneficial owner separately. In order for the beneficial owners of the Shares, whose investments are registered in nominee names, to accept the Offer, it is essential that they provide instructions to their nominees of their intentions with regard to the Offer.

All documents and remittances will be sent to the Independent Shareholders by ordinary post at their own risk. These documents and remittances will be sent to them at their respective addresses as they appear in the register of members of the Company, or, in case of joint holders to the Independent Shareholder whose name appears first in the said register of members. None of the Offeror, parties acting in concert with the Offeror, the Vendor, the Company, Astrum Capital, Yellow River Securities, the Independent Financial Adviser, the Registrar nor their respective ultimate beneficial owners, directors, officers, advisers, agents or associates, as applicable, or any other person involved in the Offer will be responsible for any loss or delay in transmission of such documents and remittances or any other liabilities that may arise as a result thereof.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information regarding the Offer set out in the appendices to this Composite Document and the accompanying Form of Acceptance, which form part of this Composite Document. You are also reminded to consider carefully the information contained in the "Letter from the Board", the "Letter from the Independent Board Committee" and the "Letter from the Independent Financial Adviser" contained in this Composite Document and to consult your professional advisers as you see fit, before deciding whether or not to accept the Offer.

Yours faithfully,
For and on behalf of
Yellow River Securities Limited



Yiu Shing Wai
Director