



**DAKIN CAPITAL LIMITED**

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6 December 2024

*To: the Takeovers Code Independent Board Committee,  
the Independent Shareholders and  
the Convertible Noteholders of  
Sunway International Holdings Limited*

Dear Sirs,

**MANDATORY UNCONDITIONAL CASH OFFERS BY  
KINGSTON SECURITIES LIMITED  
FOR AND ON BEHALF OF  
WEALTHY PORT HOLDINGS LIMITED  
TO ACQUIRE ALL THE ISSUED SHARES  
AND ALL OUTSTANDING CONVERTIBLE NOTES OF  
SUNWAY INTERNATIONAL HOLDINGS LIMITED  
(OTHER THAN THOSE ALREADY OWNED OR AGREED TO BE ACQUIRED  
BY THE OFFEROR AND PARTIES ACTING IN CONCERT WITH IT)**

**INTRODUCTION**

We refer to our appointment as the Independent Financial Adviser to advise the Takeovers Code Independent Board Committee, and the Independent Shareholders and the Convertible Noteholders in respect of the Offers, details of which are set out in the Composite Document jointly issued by the Offeror and the Company to the Independent Shareholders dated 6 December 2024, of which this letter forms part. Unless otherwise stated, capitalised terms used in this letter shall have the same meanings as defined in the Composite Document.

Reference is made to the Joint Announcement and the circular of the Company dated 31 October 2024 in relation to the subscription of new Shares under specific mandate in connection with the Share Subscription Agreement. According to the joint announcement of the Offeror and the Company dated 29 November 2024, after the Share Subscription Completion, the Offeror and parties acting in concert with it are interested in 109,613,706 Shares, representing approximately 50.86% of the issued Shares as at the Latest Practicable Date.

Pursuant to Rule 26.1 and Rule 13 of the Takeovers Code, after the Share Subscription Completion, the Offeror and the parties acting in concert with it is required to make a mandatory unconditional general offer in cash for all the relevant securities (as defined under Note 4 to Rule 22 of the Takeovers Code) of the Company (other than those already owned or to be acquired by the Offeror and parties acting in concert with it).

Kingston Securities is making (i) the Share Offer at the offer price of HK\$0.10 per Offer Share in cash on behalf of the Offeror in accordance with the Takeovers Code; and (ii) the Convertible Notes Offer at the offer price of HK\$10,929 for every HK\$1,000,000 nominal value of the Convertible Notes in cash on behalf of the Offeror in accordance with the Takeovers Code.

#### **TAKEOVERS CODE INDEPENDENT BOARD COMMITTEE**

The Takeovers Code Independent Board Committee, comprising all the four non-executive Directors, namely Mr. Lum Pak Sum, Mr. Choi Pun Lap, Mr. Yu Shui Sang Bernard and Mr. Wong Yue Kwan Alan, has been formed in accordance with the Takeovers Code to advise the Independent Shareholders on whether the Offers are fair and reasonable, and as to acceptance of the Offers.

#### **OUR INDEPENDENCE**

We, Dakin Capital Limited, have been appointed as the Independent Financial Adviser to advise the Takeovers Code Independent Board Committee, and the Independent Shareholders and the Convertible Noteholders in this regard. Our appointment as the Independent Financial Adviser has been approved by the Takeovers Code Independent Board Committee. During the past two years immediately preceding the date of the Joint Announcement and including and up to the Latest Practicable Date, we have issued a letter of advice as an independent financial adviser dated 31 October 2024 in respect of connected transactions of the Company. Save for the above engagement and this appointment as the Independent Financial Adviser in respect of the Offers, there were no other engagements between the Company and us during the past two years immediately preceding the date of the Joint Announcement and including and up to the Latest Practicable Date. We are independent from, and are not associated with the Company, the Offeror, or any party acting, or presumed to be acting, in concert with any of the above, or any company

controlled by any of them. Apart from normal professional fees payable to us in connection with this appointment as the Independent Financial Adviser to the Takeovers Code Independent Board Committee, the Independent Shareholders and the Convertible Noteholders, no other arrangements exist whereby we will receive any fees and/or benefits from the abovementioned parties or any party acting, or presumed to be acting, in concert with any of them, any of their respective associates, close associates or core connected persons or other parties that could be regarded as relevant to our independence. Accordingly, we are considered eligible to give independent advice in respect of the Offers to the Takeovers Code Independent Board Committee, the Independent Shareholders and the Convertible Noteholders in accordance with the Takeovers Code.

## **BASIS OF OUR OPINION**

In formulating our opinion to the Takeovers Code Independent Board Committee, the Independent Shareholders and the Convertible Noteholders, we have relied on the accuracy of the statements, information, opinions and representations contained or referred to in the Composite Document and the information and representations provided to us by the Directors, the director of the Offeror and the management of the Company. We have assumed that all statements, information and representations provided by the Directors, the director of the Offeror and the management of the Company, for which they are solely responsible, are true and accurate at the time when they were provided and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors, the director of the Offeror and the management of the Company in this Composite Document were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in this Composite Document, or the reasonableness of the opinions expressed by the Directors, the director of the Offeror and the management of the Company and/or its advisers, which have been provided to us. The Company will notify the Independent Shareholders and the Convertible Noteholders of any material change to information contained in or referred to in the Composite Document as soon as possible in accordance with Rule 9.1 of the Takeovers Code. The Independent Shareholders and Convertible Noteholders will also be informed as soon as possible when there is any material change to information contained in or referred to herein as well as any changes to our opinion, if any, after the Latest Practicable Date.

Your attention is drawn to the responsibility statements as set out in the paragraph headed “1. Responsibility statements” under the section headed “Appendix III General information of the Group” in this Composite Document. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Composite Document, save and except for this letter of advice.

We consider that we have been provided with sufficient information and have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion. We have not, however, carried out any independent verification of the information provided, nor have we conducted any independent investigation into the business and affairs of the Group. We have not considered the taxation implication on the Group or the Shareholders as a result of the Offers. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Where information in this letter has been extracted from published or otherwise publicly available sources, the sole responsibility of us is to ensure that such information has been correctly and fairly extracted, reproduced or presented from the relevant stated sources and not be used out of context.

**PRINCIPAL TERMS OF THE OFFERS**

**1. The Offers**

Kingston Securities is making the Offers for and on behalf of the Offeror which is unconditional in all respects in compliance with the Takeovers Code on the following terms:

*The Share Offer*

For each Offer Share ..... HK\$0.10 in cash

The Share Offer Price of HK\$0.10 per Offer Share under the Share Offer is equal to the Share Subscription Price per Subscription Share paid by the Offeror under the Share Subscription Agreement.

The Share Offer is extended to all the Independent Shareholders in accordance with the Takeovers Code. The Offer Shares to be acquired under the Share Offer shall be fully paid and free from all Encumbrances and together with all rights attaching to them, including without limitation, the right to receive all dividends and distributions declared, paid or made, if any, on or after the date on which the Share Offer is made, being the date of despatch of this Composite Document.

The Company confirms that, as at the Latest Practicable Date, (i) it has no outstanding dividend or other distribution which has been declared but not yet paid; and (ii) it does not have any intention to declare any dividend or other distributions during the Offer Period.

**The Offeror will not increase the Share Offer Price as set out above. Shareholders and potential investors of the Company should be aware that, following the making of this statement, the Offeror do not reserve the right to increase the Share Offer Price.**

### ***The Convertible Notes Offer***

For each HK\$1,000,000 face value of the Convertible Notes . . . . . HK\$10,929 in cash

The Convertible Notes will be acquired as fully-paid and free from all Encumbrances whatsoever and together with all rights now or hereafter attaching or accruing to them on or after the date on which the Convertible Notes Offer is made, being the date of despatch of this Composite Document.

As at the Latest Practicable Date, there are outstanding Convertible Notes in the principal amount of HK\$15,000,000 which carry rights to convert into 1,639,344 new conversion shares (rounded down) in full based on the existing conversion price of HK\$9.15 per conversion share, and none of the Offeror and parties acting in concert with it has any interest in the Convertible Notes.

The proposed offer price of the Convertible Notes is HK\$10,929 for every HK\$1,000,000 nominal value of the Convertible Notes, determined in accordance with Rule 13 of and Practice Note 6 to the Takeovers Code as the “see-through” consideration for the Convertible Notes, being the number of new Shares which the Convertible Notes could be convertible into (i.e. approximately 1,639,344 new conversion Shares) multiplied by the Share Offer Price of HK\$0.10 per Offer Share, valuing the total Convertible Notes Offer at approximately HK\$163,935.

The Convertible Notes Offer is made by the Offeror in compliance with Rule 13.1 of the Takeovers Code. The Company emphasises that any Convertible Notes Offer made shall not be made or construed to be prejudicial to the Company’s claims and/or counterclaims in any legal actions and procedures against the defendants in the SPA (as defined below) legal proceedings. For details of the SPA legal proceedings, please refer to the paragraph headed “7. Litigation” under the section headed “Appendix III General information of the Group” in this Composite Document.

The Offers are unconditional in all respects and are not conditional upon acceptances being received in respect of a minimum number of Offer Shares or other conditions.

#### **2. Value and total consideration of the Offers**

As at the Latest Practicable Date, there are 215,520,000 Shares in issue. Assuming there is no change in the total number of issued Shares, there would be 215,520,000 Shares in issue on the Closing Date.

*Assuming that there is no change in the total number of issued Shares*

Assuming that there is no change in the total number of issued Shares, the Offeror will be interested in 109,613,706 Shares (representing approximately 50.86% of the issued Shares as at the Latest Practicable Date) and 105,906,294 Shares not already owned or agreed to be acquired by the Offeror and the parties acting in concert with it will be subject to the Share Offer and the consideration of the Share Offer is therefore valued at approximately HK\$10.6 million based on the Share Offer Price and the basis of full acceptance of the Share Offer.

Assuming the Convertible Notes Offer is accepted in full, the consideration of the Convertible Notes Offer is valued at approximately HK\$163,935. As such, the total consideration of the Offers is valued at approximately HK\$10.8 million.

*Assuming the Convertible Notes are converted into 1,639,344 new Shares in full and there is no other change in the total number of issued Shares*

Assuming the Convertible Notes are converted into 1,639,344 new Shares in full and there is no other change in the total number of issued Shares, there would be 217,159,344 Shares in issue. The Offeror will be interested in 109,613,706 Shares (representing approximately 50.48% of the issued Shares as at the Latest Practicable Date) and 107,545,638 Shares not already owned or agreed to be acquired by the Offeror and the parties acting in concert with it will be subject to the Share Offer. Based on the Offer Price of HK\$0.10 per Offer Share for 107,545,638 Offer Shares, the value of the Share Offer is approximately HK\$10.8 million and no amount shall be payable by the Offeror under the Convertible Notes Offer. As such, the total consideration of the Offers is valued at approximately HK\$10.8 million.

**3. Confirmation of sufficient financial resources for the Offers**

The Offeror intends to finance the consideration for the Offers by its own internal resources. Donvex Capital, being the financial adviser to the Offeror, is satisfied that sufficient financial resources are available to the Offeror to satisfy the maximum payment obligations upon full acceptance of the Share Offer in respect of 105,906,294 Offer Shares and the Convertible Notes Offer.

**PRINCIPAL FACTORS AND REASONS TAKEN INTO CONSIDERATION ON THE OFFERS**

In assessing the Offers and in giving our advice to the Takeovers Code Independent Board Committee, the Independent Shareholders and the Convertible Noteholders, we have taken into consideration the following principal factors and reasons:

## BACKGROUND OF THE OFFEROR AND THE GROUP

### 1. Background and financial information of the Group

The Group is principally engaged in manufacturing and trading of pre-stressed high strength concrete piles, ready-mixed concrete, autoclaved sand-lime bricks, aerated concrete products and eco-permeable concrete products. The products are mainly sold to customers located in Yangjiang City and other customers in its surrounding cities in the Guangdong Province in the PRC.

The table below summarises the general financial information of the Group (i) for the financial years ended 31 December 2022 and 2023 which are extracted from the Company's annual report for the year ended 31 December 2023 (the "Annual Report"); and (ii) for the six months ended 30 June 2023 and 2024 which are extracted from the Company's interim report for the six months ended 30 June 2024 (the "Interim Report").

#### *Summary of the consolidated financial results of the Group*

	For the year ended 31 December 2022 (audited) HK\$'000	For the year ended 31 December 2023 (audited) HK\$'000	For the six months ended 30 June 2023 (unaudited) HK\$'000	For the six months ended 30 June 2024 (unaudited) HK\$'000
Revenue	451,115	246,531	115,611	100,511
Gross profit	105,597	37,556	17,436	16,811
Loss before tax	(52,580)	(63,887)	(19,982)	(24,459)
Loss for the year/period	(45,384)	(64,262)	(18,921)	(19,099)

#### *Financial performance for the year ended 31 December 2022 ("FY2022") and 31 December 2023 ("FY2023")*

The Group's total revenue for FY2023 decreased by approximately HK\$204.6 million, or approximately 45.4% from approximately HK\$451.1 million in FY2022 to approximately HK\$246.5 million in FY2023. The Group's gross profit decreased from approximately HK\$105.6 million for FY2022 to approximately HK\$37.6 million for FY2023, representing a decrease of approximately 64.4%. As stated in the Annual Report and according to the Directors, such decrease

in the Group's total revenue and gross profit for FY2023 were mainly due to the slumping property market and related business sectors in the PRC, resulting in the decrease in number of construction projects and demand for the concrete materials.

The Group's loss for the year widened from approximately HK\$45.4 million for FY2022 to approximately HK\$64.3 million for FY2023. Pursuant to the Annual Report and according to the Directors, such widen in loss for the year was mainly due to (i) the decrease in revenue by approximately 45.4% as well as the decrease in gross profit caused by the decrease in number of construction projects and demand for the concrete materials; and (ii) the outstanding goodwill of approximately HK\$19.9 million, relating to the Group's manufacturing and trading business in the PRC, was impaired during FY2023. As stated in the Annual Report, as at 31 December 2023, the Group's performed impairment assessment on the Group's cash generating unit — Guangdong Hengjia Building Materials Co., Ltd.\* (廣東恆佳建材股份有限公司), a subsidiary which operates the Group's piles and other product businesses (the "CGU"). According to the Directors, such recognition of impairment loss on goodwill during FY2023 was due to the estimation of cash flow of the CGU which includes budgeted sales and gross margin are out of the management of the Company's expectations for the market development. For details of the basis of recoverable amounts of the CGU and the major underlying assumptions in determining the impairment loss on goodwill, please refer to note 19 goodwill of notes to the consolidated financial statements for the year ended 31 December 2023 of the Annual Report.

***Financial performance for the six months ended 30 June 2023 ("IR2023") and 30 June 2024 ("IR2024")***

The Group's total revenue decreased from approximately HK\$115.6 million for IR2023 to approximately HK\$100.5 million for IR2024, representing a decrease of approximately 13.1%. The Group's gross profit decreased from approximately HK\$17.4 million for IR2023 to approximately HK\$16.8 million for IR2024, representing a decrease of approximately 3.6%. Pursuant to the Interim Report, such decrease in the Group's total revenue and gross profit for IR2024 was mainly driven by the weakening of property and construction market.

The Group's loss for the period widened from approximately HK\$18.9 million for IR2023 to approximately HK\$19.1 million for IR2024. According to the Interim Report and the management of the Company, such widen in loss for the period was mainly due to the combined effect of (i) the decrease in revenue and gross profit driven by the weakening of property and construction market, resulting in the decrease in number of construction projects and demand for the concrete materials; and (ii) the increase in other losses, net from approximately HK\$1.4 million for IR2023 to approximately HK\$9.3 million for IR2024, mainly driven by the increase in loss on disposal of property, plant and equipment (due to the compliance with the environmental requirements, part of the production facilities have to be relocated or re-arranged and this gives rise to a loss on disposal of property, plant and equipment) from approximately HK\$0.6 million for IR2023 to



approximately HK\$8.6 million for IR2024; and partially offset by (1) the decrease in selling and distribution expenses from approximately HK\$23.3 million for IR2023 to approximately HK\$20.9 million for IR2024; (2) the decrease in administrative expenses from approximately HK\$11.9 million for IR2023 to approximately HK\$9.9 million for IR2024; and (3) the increase in income tax credit from approximately HK\$1.1 million for IR2023 to approximately HK\$5.4 million for IR2024.

*Summary of the consolidated financial positions of the Group*

	As at 31 December 2022 (audited) HK\$'000	As at 31 December 2023 (audited) HK\$'000	As at 30 June 2024 (unaudited) HK\$'000
Property, plant and equipment	116,112	102,427	87,390
Right-of-use assets	36,177	32,283	30,843
Goodwill	19,941	—	—
Deferred tax assets	2,516	—	—
<b>Non-current assets</b>	<b>174,746</b>	<b>134,710</b>	<b>118,233</b>
Inventories	21,852	9,688	13,045
Trade, bill and loan receivables	160,261	108,172	114,463
Prepayment, deposits and other receivables	43,336	50,619	67,546
Restricted bank deposits	15	—	—
Cash and cash equivalents	9,327	27,749	7,344
<b>Current assets</b>	<b>234,791</b>	<b>196,228</b>	<b>202,398</b>
<b>Total assets</b>	<b>409,537</b>	<b>330,938</b>	<b>320,631</b>

	As at 31 December 2022 (audited) HK\$'000	As at 31 December 2023 (audited) HK\$'000	As at 30 June 2024 (unaudited) HK\$'000
Lease liabilities	1,878	1,627	1,492
Interest-bearing borrowings	9,558	3,000	20,997
<b>Non-current liabilities</b>	<b>11,436</b>	<b>4,627</b>	<b>22,489</b>
Trade payables	99,065	81,268	45,753
Accruals and other payables	51,571	63,544	93,881
Contract liabilities	4,059	4,818	3,929
Lease liabilities	172	193	198
Amount due to non-controlling interests	491	476	466
Amount due to shareholder	13,677	18,677	20,677
Interest-bearing borrowings	18,035	15,511	18,197
Tax payables	7,596	6,150	726
<b>Current liabilities</b>	<b>194,666</b>	<b>190,637</b>	<b>183,827</b>
<b>Total liabilities</b>	<b>206,102</b>	<b>195,264</b>	<b>206,316</b>
<b>Net assets</b>	<b>203,435</b>	<b>135,674</b>	<b>114,315</b>

***Financial position as at 31 December 2023***

The Group's total assets decreased from approximately HK\$409.5 million as at 31 December 2022 to approximately HK\$330.9 million as at 31 December 2023. As advised by the Directors, such decrease in total assets was mainly due to the combined effect of (i) the decrease in inventories from approximately HK\$21.9 million as at 31 December 2022 to approximately HK\$9.7 million as at 31 December 2023, mainly due to the decrease in production of the concrete materials; (ii) the decrease in trade, bill and loan receivables from approximately HK\$160.3 million as at 31 December 2022 to approximately HK\$108.2 million as at 31 December 2023, mainly due to the decrease in the Group's revenue as analysed above in this paragraph, resulting in less trade, bill and loan receivables recognised as at 31 December 2023; and (iii) the decrease in goodwill from approximately HK\$19.9 million as at 31 December 2022 to nil as at 31 December 2023; and partially offset by the increase in cash and cash equivalents from approximately HK\$9.3

million as at 31 December 2022 to approximately HK\$27.7 million as at 31 December 2023. As at 31 December 2023, the Group's total assets mainly comprised trade, bill and loan receivables of approximately HK\$108.2 million, property, plant and equipment of approximately HK\$102.4 million and prepayment, deposits and other receivables of approximately HK\$50.6 million.

The Group's total liabilities decreased from approximately HK\$206.1 million as at 31 December 2022 to approximately HK\$195.3 million as at 31 December 2023. As advised by the Directors, such decrease in total liabilities was mainly due to the combined effect of (i) the decrease in trade payables from approximately HK\$99.1 million as at 31 December 2022 to approximately HK\$81.3 million as at 31 December 2023, mainly due to the decrease in the Group's cost of sales from approximately HK\$345.5 million for FY2022 to approximately HK\$209.0 million for FY2023, resulting in less trade payables recognised as at 31 December 2023; and (ii) the decrease in interest-bearing borrowings from approximately HK\$27.6 million as at 31 December 2022 to approximately HK\$18.5 million as at 31 December 2023, on which the Company's subsidiary made repayment based on the scheduled repayment dates set out in the respective borrowing agreements; and partially offset by (1) the increase in accruals and other payables from approximately HK\$51.6 million as at 31 December 2022 to approximately HK\$63.5 million as at 31 December 2023; and (2) the increase in amount due to a shareholder from approximately HK\$13.7 million as at 31 December 2022 to approximately HK\$18.7 million as at 31 December 2023. As at 31 December 2023, the Group's total liabilities mainly comprised trade payables of approximately HK\$81.3 million, accruals and other payables of approximately HK\$63.5 million and amount due to a shareholder of approximately HK\$18.7 million.

The Group's net assets decreased by approximately HK\$67.8 million from approximately HK\$203.4 million as at 31 December 2022 to approximately HK\$135.7 million as at 31 December 2023. According to the Directors, such decrease in net assets was mainly due to the loss-making position of approximately HK\$64.3 million during FY2023.

#### ***Financial position as at 30 June 2024***

The Group's total assets decreased from approximately HK\$330.9 million as at 31 December 2023 to approximately HK\$320.6 million as at 30 June 2024. As advised by the Directors, such decrease in total assets was mainly due to the combined effect of (i) the decrease in cash and cash equivalents from approximately HK\$27.7 million as at 31 December 2023 to approximately HK\$7.3 million as at 30 June 2024, mainly driven by the net cash used in operating activities of approximately HK\$29.7 million for IR2024 causing mainly by the net loss for the period of approximately HK\$19.1 million; and (ii) the decrease in property, plant and equipment from approximately HK\$102.4 million as at 31 December 2023 to approximately HK\$87.4 million as at 30 June 2024, mainly driven by the disposal of property, plant and equipment during IR2024, due to the compliance with the environmental requirements, part of the production facilities have to be

relocated or re-arranged and this gives rise to a loss on disposal of property, plant and equipment; and partially offset by slow recovery of the Group's business reflected in (1) the increase in inventories from approximately HK\$9.7 million as at 31 December 2023 to approximately HK\$13.0 million as at 30 June 2024; (2) the increase in trade, bill and loan receivables from approximately HK\$108.2 million as at 31 December 2023 to approximately HK\$114.5 million as at 30 June 2024; and (3) the increase in prepayment, deposits and other receivables from approximately HK\$50.6 million as at 31 December 2023 to approximately HK\$67.5 million as at 30 June 2024. As at 30 June 2024, the Group's total assets mainly comprised trade, bill and loan receivables of approximately HK\$114.5 million, property, plant and equipment of approximately HK\$87.4 million and prepayment, deposits and other receivables of approximately HK\$67.5 million.

The Group's total liabilities increased from approximately HK\$195.3 million as at 31 December 2023 to approximately HK\$206.3 million as at 30 June 2024. As advised by the Directors, such increase in total liabilities was mainly due to the combined effect of (i) the increase in accruals and other payables from approximately HK\$63.5 million (mainly comprised other payables, provision of compensation and cost for legal cases, accruals and other tax payables) as at 31 December 2023 to approximately HK\$93.9 million (mainly comprised other payables, provision of compensation and cost for legal cases, accruals and other tax payables) as at 30 June 2024 so as to maintain sufficient liquidity for the operating activities; and (ii) the increase in interest-bearing borrowings from approximately HK\$18.5 million as at 31 December 2023 to approximately HK\$39.2 million as at 30 June 2024, mainly because the Company's subsidiary has obtained new interest-bearing borrowings during IR2024; and partially offset by the decrease in trade payables from approximately HK\$81.3 million as at 31 December 2023 to approximately HK\$45.8 million as at 30 June 2024. As at 30 June 2024, the Group's total liabilities mainly comprised accruals and other payables of approximately HK\$93.9 million, trade payables of approximately HK\$45.8 million and interest-bearing borrowings of approximately HK\$39.2 million as at 30 June 2024.

The Group's net assets decreased by approximately HK\$21.4 million from approximately HK\$135.7 million as at 31 December 2023 to approximately HK\$114.3 million as at 30 June 2024. According to the Directors, such decrease in net assets was mainly due to the loss-making position of approximately HK\$19.1 million during IR2024.

Given that the Company has been loss making for FY2022, FY2023, IR2023 and IR2024 with persistent decrease in its net assets as at 31 December 2022, 31 December 2023 and 30 June 2024, we consider that the Company's financial performance was far from satisfactory. As such, we are of the view that the Offers provides a good opportunity to those Shareholders who wish to redeploy their investment from the Company.

## 2. Overview and outlook of the concrete materials market in the PRC

As discussed with the Directors, the demands for concrete materials such as piles, concrete and bricks products are highly correlated to the level of construction activities in the PRC. There were many PRC property development firms which have defaulted on debts since 2021. The debt woes of property developers put pressure toward the property sales. The property slump contracted demand for the basic concrete materials sector. In light of this, we have researched and studied the data from National Bureau of Statistics of the PRC\* (中華人民共和國國家統計局) (the “NBS”) (website link: <https://data.stats.gov.cn/index.htm>) and The Government of Yangjiang City\* (陽江市人民政府) (website link: <http://www.yangjiang.gov.cn/>).

### *Statistics of development and investment of property market in the PRC*

	2021	2022	2023	Compound annual growth rate	First half of 2023	First half of 2024	Growth rate
	RMB (billion)	RMB (billion)	RMB (billion)	(%)	RMB (billion)	RMB (billion)	(%)
National real estate development investment	14,760	13,290	11,091	-13.3	5,855	5,253	-10.3
National real estate construction project investment	8,891	7,931	6,162	-16.7	3,211	2,832	-11.8
	<i>square meters '000</i>	<i>square meters '000</i>	<i>square meters '000</i>		<i>square meters '000</i>	<i>square meters '000</i>	
Newly construction area of real estate projects	1,988,951	1,205,871	953,755	-30.8	498,795	380,225	-23.8

Source: Website of the NBS (<https://data.stats.gov.cn/index.htm>)

*Statistics of development and investment of property market in the Yangjiang City*

	2021	2022	2023	Compound annual growth rate	First half of 2023	First half of 2024	Growth rate
	RMB	RMB	RMB	(%)	RMB	RMB	(%)
	(billion)	(billion)	(billion)		(billion)	(billion)	
Yangjiang real estate development investment	10	8	8	-10.6	4	3	-25.0
Yangjiang real estate construction project investment	9	6	6	-18.4	3	2	-33.3

Source: Website of The Government of Yangjiang City\* (陽江市人民政府) (<http://www.yangjiang.gov.cn/>)

As shown in the above table, the national real estate development investment decreased from approximately RMB14,760 billion for the year of 2021 to approximately RMB11,091 billion for the year of 2023, representing a negative compound annual growth rate of approximately 13.3%. For the six months ended 30 June 2024, the national real estate development investment was approximately RMB5,253 billion, representing a decrease of approximately 10.3% as compared with that of the same period of 2023.

Also, the national real estate construction project investment decreased from approximately RMB8,891 billion for the year of 2021 to approximately RMB6,162 billion for the year of 2023, representing a negative compound annual growth rate of approximately 16.7%. For the six months ended 30 June 2024, the national real estate construction project investment was approximately RMB2,832 billion, representing a decrease of approximately 11.8% as compared with that of the same period of 2023.

Furthermore, the newly construction area of real estate projects was also in a decreasing trend in the past three years. It decreased from approximately 2.0 billion square meters for the year of 2021 to approximately 1.2 billion square meters for the year of 2022, and further decreased to approximately 1.0 billion square meters for the year of 2023, representing a negative compound annual growth rate of approximately 30.8%. For the six months ended 30 June 2024, it recorded approximately 0.4 billion square meters, representing a decrease of approximately 23.8% as compared with that of the same period of 2023.

As shown in the above table, the Yangjiang real estate development investment decreased from approximately RMB10 billion for the year of 2021 to approximately RMB8 billion for the year of 2023, representing a negative compound annual growth rate of approximately 10.6%. For the six months ended 30 June 2024, the Yangjiang real estate development investment was approximately RMB3 billion, representing a decrease of approximately 25.0% as compared with that of the same period of 2023.

Also, the Yangjiang real estate construction project investment decreased from approximately RMB9 billion for the year of 2021 to approximately RMB6 billion for the year of 2023, representing a negative compound annual growth rate of approximately 18.4%. For the six months ended 30 June 2024, the Yangjiang real estate construction project investment was approximately RMB2 billion, representing a decrease of approximately 33.3% as compared with that of the same period of 2023.

The above statistics from the NBS and The Government of Yangjiang City\* (陽江市人民政府) demonstrated that the property market in the PRC and Yangjiang City may not be satisfactory, which directly affected the demand for the concrete materials.

***Statistics of output of cements in the PRC***

	2021	2022	2023	Compound annual growth rate	First half of 2023	First half of 2024	Growth rate
	tonnes '000	tonnes '000	tonnes '000	(%)	tonnes '000	tonnes '000	(%)
Output of cements	2,377,245	2,129,272	2,022,930	-7.8	953,003	850,468	-10.8

Source: Website of the NBS (<https://data.stats.gov.cn/index.htm>)

As shown in the above table, the output of cements decreased from approximately 2.4 billion tonnes for the year of 2021 to approximately 2.0 billion tonnes for the year of 2023, representing a negative compound annual growth rate of approximately 7.8%. For the six months ended 30 June 2024, the output of cements was approximately 0.9 billion tonnes, representing a decrease of approximately 10.8% as compared with that of the same period of 2023. The decreasing trend of output of cements in the past three years and recently also demonstrated that there is an overall lag in demand for concrete materials.

Regarding the pricing trend of national average transaction price of cement, we have also reviewed the following reports:

- (i) the PRC’s Cement Economy in 2021 and Outlook for 2022\* (2021年中國水泥經濟運行及2022年展望) (website link: <https://www.dcement.com/article/202201/187042.html>);
- (ii) the PRC’s Cement Economy in 2022 and Outlook for 2023\* (2022年中國水泥經濟運行及2023年展望) (website link: <https://www.dcement.com/article/202301/207081.html>);
- (iii) the PRC’s Cement Economy in 2023 and Outlook for 2024\* (2023年中國水泥經濟運行及2024年展望) (website link: <https://www.dcement.com/article/202401/219658.html>);  
and
- (iv) the PRC’s Cement Economy in the first half of 2024\* (2024年上半年中國水泥經濟運行報告) (website link: <https://www.dcement.com/article/202407/228702.html>).

These reports are published by Digital Cement\* (數字水泥網), which is operated by China Cement Association\* (中國水泥協會) (the “CCA”). The CCA is an association regulated by the State-owned Assets Supervision and Administration Commission of the State Council\* (國務院國有資產監督管理委員會). Set out below are the data extracted from these reports regarding the national average transaction price of cements:

	2021	2022	2023	Compound annual growth rate	First half of 2023	First half of 2024	Growth rate
	RMB per tonne	RMB per tonne	RMB per tonne	(%)	RMB per tonne	RMB per tonne	(%)
National average transaction price of cements	486	466	394	-10.0	421	367	-12.8

Source: Website of the Digital Cement\* (數字水泥網) (<https://www.dcement.com/>)

As shown in the above table, the national average transaction price of cements decreased from approximately RMB486 per tonne for the year of 2021 to approximately RMB466 per tonne for the year of 2022, and further decreased to approximately RMB394 per tonne for the year of 2023, representing a negative compound annual growth rate of approximately 10.0%. For the six months ended 30 June 2024, the national average transaction price of cements was approximately



RMB367 per tonne, representing a decrease of approximately 12.8% as compared with that of the same period of 2023. Based on the above data, the national cement price is still at a low level and remains uncertain.

After considering that (i) the Group has suffered a decline in revenue for FY2022, FY2023 and IR2024 and also a decline in gross profit for FY2023 and IR2024; (ii) the Group was in loss-making position for FY2022, FY2023, IR2023 and IR2024; (iii) the decrease in the output of cements and the national average transaction price of cements as analysed above; and (iv) the uncertainty on the recovery of the property market in the PRC, we consider the Group's outlook and prospects remain uncertain.

### **3. Information on the Offeror**

The Offeror is primarily engaged in investment holding and is a controlling shareholder of the Company which beneficially owns 109,613,706 Shares, representing approximately 50.86% of the issued Shares as at the Latest Practicable Date. Mr. Chim is the sole legal and beneficial shareholder and the sole director of the Offeror.

Mr. Chim, aged 78, was a member of the Legislative Council of Hong Kong, representing the Financial Services Functional Constituency, for the period from 1991 to 1998 and from 2004 to 2012. In the past years, he had been the directors of various companies listed on the main board of Stock Exchange. Mr. Chim was a Director of Hing Yip Holdings Limited (formerly known as "China Investments Holdings Limited") (stock code: 0132) from 1989 to 1990; Managing Director of Goldin Properties Holdings Limited (formerly known as "Wai Yick Investment Company Limited") (stock code: 0283) from 1990 to 1991; Chairman of SMI Holdings Group Limited (formerly known as "Lucky Man Holdings Limited") (stock code: 0198) from 1994 to 1995; Chairman of Grand Field Group Holdings Limited (stock code: 0115) from 1994 to 1996; and Chairman and Executive Director of Rich Goldman Holdings Limited (formerly known as "Mandarin Resources Corporation Limited") (stock code: 0070) from 1994 to 1996. As stated in the paragraph headed "Proposed change of Board composition" under the section headed "Letter from Donvex Capital" in this Composite Document, (i) the Offeror has no intention to make any change to the composition of the Board as at the Latest Practicable Date; (ii) Mr. Chim has no experience in managing the Group's business and has no intention to participate in the business management of the Group; and (iii) Mr. Chim will not become a Director after completion of the Offers.

As at the Latest Practicable Date, Mr. Chim is the sole shareholder of the Offeror and is therefore interested in the 109,613,706 Shares of the Company owned by the Offeror, which represented approximately 50.86% of the issued Shares within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

#### **4. Intention of the Offeror in relation to the Group**

It is the intention of the Offeror that the Group will continue with its existing principal businesses after the close of the Offers and will maintain the listing status of the Company on the Stock Exchange. The Group is principally engaged in manufacturing and trading of pre-stressed high strength concrete piles, ready-mixed concrete, autoclaved sand-lime bricks, aerated concrete products and eco-permeable concrete products in the PRC.

As at Latest Practicable Date, the Offeror has no intention or plans for any acquisition of assets and/or business, nor any intention to dispose of any assets and/or existing business by the Group.

Save for the Offeror's intention regarding the Group as set out above, the Offeror has no intention to (i) discontinue the employment of any employees of the Group; or (ii) re-deploy the fixed assets of the Group other than those in its ordinary and usual course of business.

#### **5. Change of Board composition**

As at the Latest Practicable Date, the Board comprises one executive Director, namely Mr. Law Chun Choi, one non-executive Director, namely, Mr. Lum Pak Sum, and three independent non-executive Directors, namely, Mr. Choi Pun Lap, Mr. Yu Shui Sang Bernard and Mr. Wong Yue Kwan Alan.

The Offeror did not propose to nominate any new Directors to the Board. Mr. Chim will not become a Director after completion of the Offers. Meanwhile, the Offeror has no intention to make any change to the composition of the Board as at the Latest Practicable Date.

#### **6. Maintaining the listing status of the Company**

The Offeror intends the issued Shares to remain listed on the Stock Exchange upon the close of the Offers.

The Stock Exchange has stated that if, at the closing of the Offers, less than the minimum prescribed percentage applicable to the listed issuer, 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, the Stock Exchange will consider exercising its discretion to suspend trading in the Shares until a level of sufficient public float is attained.

The Offeror intends the Company to remain listed on the Stock Exchange. The sole director of the Offeror had undertaken to the Stock Exchange to take appropriate steps as soon as possible following the close of the Offers to ensure that sufficient public float (i.e. not less than 25% of the issued Shares) exists in the Shares.

## **7. Compulsory acquisition**

The Offeror does not intend to exercise any power of compulsory acquisition of any Offer Shares outstanding and not acquired under the Share Offer after the close of the Offers.

## **8. Our view**

After considering the following factors,

- (i) the Offeror has intention to continue the existing business of the Group and intends that the Group's existing principal activities will be maintained;
- (ii) the Offeror intends to remain the issued Shares listed on the Stock Exchange and maintain the listing status of the Company;
- (iii) the Offeror has no intention to make any change to the composition of the Board and Mr. Chim, the sole director of the Offeror will not become a Director after completion of the Offers; and
- (iv) the Offeror does not intend to exercise any power of compulsory acquisition of any Offer Shares outstanding and not acquired under the Share Offer after the close of the Offers,

it is expected that there will be no immediate material change on the business operation of the Group after the close of the Offers.

However, given that (i) the Group was in loss-making position for FY2022, FY2023, IR2023 and IR2024; (ii) the Group's net assets position was deteriorating from approximately HK\$203.4 million as at 31 December 2022 to approximately HK\$135.7 million as at 31 December 2023, and further decreased to approximately HK\$114.3 million as at 30 June 2024; and (iii) the uncertainty on the future prospect of the Group, we are of the view that the Offers represents an opportunity for the Shareholders to realise their investments in the Company should they so wish to.

## ANALYSIS OF THE SHARE OFFER PRICE FOR THE SHARE OFFER

### 9. Comparison of the Share Offer Price

The Share Offer Price of HK\$0.1 per Offer Share represents:

- (i) a premium of approximately 96.08% to the closing price of HK\$0.051 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a premium of approximately 96.08% to the average of the closing prices of the Share as quoted on the Stock Exchange for the five consecutive trading days up to and including the Last Trading Day of approximately HK\$0.051 per Share;
- (iii) a premium of approximately 75.44% to the average of the closing prices of the Share as quoted on the Stock Exchange for the thirty consecutive trading days up to and including the Last Trading Day of approximately HK\$0.057 per Share;
- (iv) a discount of approximately 85.07% to the closing price of HK\$0.67 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (v) a discount of approximately 84.13% to the audited consolidated net asset value attributable to the Shareholders as at 31 December 2023 of approximately HK\$0.630 per Share (based on the audited consolidated net asset value attributable to Shareholders as at 31 December 2023 (the date to which the latest audited financial results of the Group were made up) divided by 215,520,000 Shares in issue as at the Latest Practicable Date); and
- (vi) a discount of approximately 81.13% to the unaudited consolidated net asset value attributable to the Shareholders as at 30 June 2024 of approximately HK\$0.530 per Share (based on the unaudited consolidated net asset value attributable to the Shareholders as at 30 June 2024 (the date to which the latest unaudited financial results of the Group were made up) and divided by 215,520,000 Shares in issue as at the Latest Practicable Date).

On the other hand, (i) the daily closing price of the Share during the period from 4 September 2023, being the twelve-month period prior to the Last Trading Day (i.e. 5 September 2024) (the “**Pre Joint Announcement Review Period**”), ranging from the highest of HK\$0.098 per Share to the lowest of HK\$0.050 per Share, had been trading substantially below the net asset value per Share as illustrated in Chart 1 below; (ii) the trading of the Share during the period from 6 September 2024 to 27 September 2024 was halted; and (iii) the daily closing price of the Share

during the period from 30 September 2024 to the Latest Practicable Date (the “**Post Joint Announcement Review Period**”), ranging from the highest of HK\$0.780 per Share to the lowest of HK\$0.190 per Share, had been trading on a general increasing trend from HK\$0.190 per Share on 30 September 2024 to HK\$0.67 per Share on the Latest Practicable Date. Shareholders should also note that 30 trading days out of 45 trading days during the Post Joint Announcement Review Period were closed above the net asset value per Share as illustrated in Chart 1 below. We consider that the review period as mentioned above is fair and reasonable to illustrate the general trend and movement of recent closing prices of the Shares.

As discussed above, the net asset value per Share as at 31 December 2023 and 30 June 2024 were approximately HK\$0.630, HK\$0.530 respectively which is significantly higher than the Share Offer Price.

## **10. Historical performance of Shares**

### *10a. Historical price of Shares*

Set out below is the chart showing the daily closing price of Shares as quoted on the Stock Exchange during the Pre Joint Announcement Review Period and the Post Joint Announcement Review Period (collectively, the “**Review Periods**”). We consider that the Review Periods are fair, adequate, representative and sufficient to illustrate the general trend and level of movement of recent closing prices of Shares for conducting a reasonable comparison among the historical closing prices of Shares and the Share Offer Price.

**Chart 1: Movement of the daily closing price of the Share during the Review Periods**



*Note:* The net asset value per Share was calculated based on the consolidated net asset value attributable to Shareholders as set out in the respective interim or annual results of the Company divided by the total number of Shares in issue as at the Latest Practicable Date.

*Source:* Website of the Stock Exchange (<https://www.hkex.com.hk>)

As depicted in the above chart 1 during the Review Periods, all the closing price of Shares were below the Share Offer Price of HK\$0.1 per Share throughout the whole Pre Joint Announcement Review Period. During the Pre Joint Announcement Review Period, (i) the closing price of Shares demonstrated a general sideways trend throughout the Pre Joint Announcement Review Period; and (ii) the closing price of Shares range from HK\$0.050 on 19 August 2024 to HK\$0.098 on 6 June 2024, with an average of approximately HK\$0.073. After the publication of the Joint Announcement, the closing price of Shares was on a general increasing trend from HK\$0.190 per Share on 30 September 2024 to HK\$0.67 per Share on the Latest Practicable Date during the Post Joint Announcement Review Period.

The Share Offer Price of HK\$0.1 represents:

***Pre Joint Announcement Review Period***

- (i) a premium of approximately 100.00% to the lowest closing price of HK\$0.050 during the Pre Joint Announcement Review Period;
- (ii) a premium of approximately 2.04% to the highest closing price of HK\$0.098 during the Pre Joint Announcement Review Period;
- (iii) a premium of approximately 37.33% to the average closing price of approximately HK\$0.073 during the Pre Joint Announcement Review Period;

***Last Trading Day***

- (iv) a premium of approximately 96.08% to the closing price of HK\$0.051 on the Last Trading Day;

***Post Joint Announcement Review Period***

- (v) a discount of approximately 47.37% to the lowest closing price of HK\$0.190 during the Post Joint Announcement Review Period;
- (vi) a discount of approximately 87.18% to the highest closing price of HK\$0.780 during the Post Joint Announcement Review Period;
- (vii) a discount of approximately 82.02% to the average closing price of approximately HK\$0.556 during the Post Joint Announcement Review Period;

***Review Periods***

- (viii) a premium of approximately 100.00% to the lowest closing price of HK\$0.050 during the Review Periods;
- (ix) a discount of approximately 87.18% to the highest closing price of HK\$0.780 during the Review Periods;
- (x) a discount of approximately 31.89% to the average closing price of HK\$0.147 during the Review Periods;

*Net asset value*

- (xi) a discount of approximately 84.13% to the audited consolidated net asset value attributable to the Shareholders as at 31 December 2023 of approximately HK\$0.630 per Share (based on the audited consolidated net asset value attributable to Shareholders as at 31 December 2023 (the date to which the latest audited financial results of the Group were made up) divided by 215,520,000 Shares in issue as at the Latest Practicable Date);
- (xii) a discount of approximately 81.13% to the unaudited consolidated net asset value attributable to the Shareholders as at 30 June 2024 of approximately HK\$0.530 per Share (based on the unaudited consolidated net asset value attributable to the Shareholders as at 30 June 2024 (the date to which the latest unaudited financial results of the Group were made up) and divided by 215,520,000 Shares in issue as at the Latest Practicable Date); and

*Latest Practicable Date*

- (xiii) a discount of approximately 85.07% to the closing price of HK\$0.67 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

**Shareholders should note that the information set out above is not an indicator of the future trading price performance of Shares, and that the trading price of Shares may increase or decrease during the Offer Period.**

**Shareholders who wish to accept the Share Offer or realise their investments in the Group are reminded that they should carefully and closely monitor the trading price of Shares during the Offer Period.**

*10b. Historical liquidity of Shares*

The following table sets out the average daily trading volume (the “ADTV”) of Shares for each month or period and the percentages of such ADTV to the number of total issued Shares and the Shares held by public Shareholders during the Review Period:



**Table 1: Trading liquidity of Shares**

	Number of trading days	ADTV during the period/month/day (Shares) (Note 1)	Percentage of ADTV over the issued Shares of the Company as at period/month end (approximate %) (Note 2)	Percentage of ADTV over the issued Shares of the Company held by the public Shareholders as at period/month end (approximate %)
<b>2023</b>				
From 4 September 2023 to 29 September 2023	19	29,074	0.0162	0.0275
October	20	9,450	0.0053	0.0089
November	22	77,018	0.0429	0.0727
December	19	168	0.0001	0.0002
<b>2024</b>				
January	22	4,636	0.0026	0.0044
February	19	53,995	0.0301	0.0510
March	20	29,090	0.0162	0.0275
April	20	13,500	0.0075	0.0127
May	21	49,271	0.0274	0.0465
June	19	44,909	0.0250	0.0424
July	22	15,638	0.0087	0.0148
August	22	32,382	0.0180	0.0306
From 2 September 2024 to 5 September 2024	4	25,200	0.0140	0.0238
From 9 September 2024 to 27 September 2024	— (Note 3)	— (Note 3)	— (Note 3)	— (Note 3)
On 30 September 2024	1	17,999,160	10.0218	16.9954
October	21	3,050,053	1.6982	2.8800
November	21	484,160	0.2246	0.4572
From 2 December 2024 to the Latest Practicable Date	2	1,046,600	0.4856	0.9882

*Notes:*

1. It is calculated by dividing the ADTV for the month/period by the total number of Shares in issue at the end of month/period.;
2. It is calculated by dividing the ADTV for the month/period by the total number of Shares in issue held by public Shareholders at the end of month/period.; and
3. Trading of Shares was halted during the period from 9 September 2024 to 27 September 2024 and pending the release of the Joint Announcement.

*Source: Website of the Stock Exchange (<https://www.hkex.com.hk>)*

As illustrated from the table 1 above, the monthly ADTV of Shares during the Pre Joint Announcement Review Period ranged from approximately 168 Shares in December 2023 to approximately 77,018 Shares in November 2023, representing approximately 0.0001% to approximately 0.0429% of the total number of Shares in issue and approximately 0.0002% to approximately 0.0727% of the total number of Shares held by the public Shareholders respectively.

On the first trading day (i.e. 30 September 2024) after the release of the Joint Announcement, the daily trading volume of Shares substantially increased to 17,999,160 Shares, which is above all the daily trading volume of Shares during the Pre Joint Announcement Review Period and accounts for approximately 16.9954% of the total number of Shares held by public Shareholders. Such high daily trading volume of Shares on 30 September 2024 might be due to market speculations of certain corporate actions of the Company such as the Share Subscription, the CB Subscription and the Share Offer.

Furthermore, Shareholders should also note that (i) there was a total of 170 trading days on which there was no trading of Shares, representing approximately 68.3% of 249 trading days during the Pre Joint Announcement Review Period; and (ii) there was trading of Shares daily during the Post Joint Announcement Review Period.

During the period from 2 October 2024 to the Latest Practicable Date, we also noted that there was trading of Shares daily with the following ranges:

- (i) the lowest trading volume of 60,000 Shares traded on 13 November 2024, representing approximately 0.0567% of the total number of Shares held by public Shareholders; and
- (ii) the highest trading volume of 7,554,620 Shares traded on 2 October 2024, representing approximately 7.1333% of the total number of Shares held by public Shareholders.

**Shareholders should note that the information set out above is not an indicator of the future trading volume of Shares, and that the trading volume of Shares may fluctuate during the Offer Period.**

**Shareholders who wish to accept the Share Offer or realise their investments in the Group are reminded that they should carefully and closely monitor the trading volume of Shares during the Offer Period.**

*10c. Our view*

Despite the trading price and trading volume of Shares become active after the publication of the Joint Announcement, having considered (i) the closing price of the Shares was generally in a sideways trend throughout the Pre Joint Announcement Review Period and suddenly was on a general increasing trend after the publishment of the Joint Announcement which demonstrated market speculations of certain corporate actions of the Company exist and creates concern on the stability of trading price of Shares and whether such increasing trend of trading price of Shares after the publishment of the Joint Announcement can be maintained or sustained; (ii) the historical daily trading volume of Shares during the Pre Joint Announcement Review Period are thin; and (iii) there is a general decreasing trend of trading volume from 17,999,160 Shares on 30 September 2024 to 1,068,000 Shares as at the Latest Practicable Date during the Post Joint Announcement Review Period, it creates an uncertainty on whether there is sufficient liquidity for the Independent Shareholders to dispose of a significant number of Shares on the Stock Exchange without creating downward pressure on the trading price of Shares.

Therefore, we consider that the Share Offer provides an assured exit alternative for the Independent Shareholders, to realise part of or all of their investments in the Shares at the Share Offer Price of HK\$0.1 per Offer Share if they wish so.

**We would like to remind Shareholders that our analysis set out above is not an indicator of the future performance of Shares, and that the trading price of Shares after the publishment of the Joint Announcement (i) may be maintained or not be maintained at this high level in the Post Announcement Review Period; or (ii) may be sustained or not be sustained during the Offer Period and after the close of the Offers.**

**Shareholders who wish to accept the Share Offer or realise their investments in the Group are reminded that they should carefully and closely monitor the trading price of Shares during the Offer Period.**

## 11. Comparable analysis with other listed companies

As discussed in the paragraph headed “1. Background and financial information of the Group” and “2. Overview and outlook of the concrete materials market in the PRC” above in this letter, the Group principally engages in manufacturing and trading of pre-stressed high strength concrete piles, ready-mixed concrete, autoclaved sand-lime bricks, aerated concrete products and eco-permeable concrete products in the PRC. Based on the Share Offer Price of HK\$0.1 per Offer Share and the total number of issued Shares of 215,520,000 as at the Latest Practicable Date, the Company is valued at approximately HK\$21.6 million. In this respect, in order to evaluate the fairness and reasonableness of the Share Offer Price, we have conducted a comparable company analysis based on the following selection criteria to include companies that

- (a) are listed on the Stock Exchange and are not being suspension of trading as at the Last Trading Day;
- (b) are principally engaged in manufacturing and trading of concrete products;
- (c) generate at least 50% of their respective total revenue contributed from manufacturing and trading of concrete products in their latest financial year; and
- (d) have market capitalisation at or below HK\$100 million as at the Last Trading Day.

Since the theoretical market capitalisation of the Company was only approximately HK\$21.6 million with reference to the Share Offer Price, we would limit the selection for comparison with small sized listed companies of market capitalisation of less than HK\$100 million in search for border comparables. Based on the aforementioned criteria, we have identified an exhaustive list of two companies listed on the Stock Exchange which are engaged in manufacturing and trading of concrete products (the “**Comparable Companies**”).

For comparison purpose, we have considered the price-to-earnings ratio (the “**P/E Ratio**”), which is the most commonly adopted valuation benchmark in the course of valuation of companies. However, given that the Company recorded a loss-making position for FY2023, we are unable to conduct the comparison on P/E Ratio. We also considered the use of the price-to-book ratio (the “**P/B Ratio**”) and the price-to-sales ratio (the “**P/S Ratio**”) in our market comparable analysis as reference, details of which are set out below.

**Table 2: Analysis of the Comparable Companies**

No.	Name of company (stock code)	Principal business	Market capitalisation  (Note 2) '000	Revenue for the latest financial year (audited) '000	Profit/(Loss) for the latest financial year (audited) '000	Net assets for the latest financial year (audited) '000	P/B Ratio  (Note 3)	P/S Ratio  (Note 4)
1.	Huasheng International Holding Limited (1323)	Principally engaged in production and sales of ready-mixed commercial concrete in the PRC and provision of money lending services in Hong Kong.	HK\$77,077	HK\$565,906	HK\$(31,441)	HK\$960,397	0.08	0.14
2.	Tailam Tech Construction Holdings Ltd. (6193)	Principally engaged in the manufacturing and sale of pre-stressed high-strength concrete piles, commercial concrete and ceramsite concrete block in the PRC.	HK\$76,000	RMB245,031	RMB(17,637)	RMB207,060	0.34	0.28
					<b>Maximum</b>	0.34	0.28	
					<b>Minimum</b>	0.08	0.14	
					<b>Median</b>	0.21	0.21	
					<b>Mean</b>	0.21	0.21	

		Implied market capitalisation  (Note 2) '000	Revenue for the latest financial year (audited) '000	Profit/(Loss) for the latest financial year (audited) '000	Net assets for the latest financial year (audited) '000	Implied P/B Ratio  (Note 3)	Implied P/S Ratio  (Note 4)
The Company (58)	Principally engages in manufacturing and trading of pre-stressed high strength concrete piles, ready-mixed concrete, autoclaved sand-lime bricks, aerated concrete products and eco-permeable concrete products in the PRC.	HK\$21,552	HK\$246,531	HK\$(64,262)	HK\$135,674	0.16	0.09

*Notes:*

1. The conversion of RMB into HK\$ is made for illustrative purpose only, at the rates of RMB1.00 = HK\$1.09.;
2. The market capitalisations of the Comparable Companies are calculated by multiplying their respective closing prices as at the Last Trading Day by the numbers of shares. The implied market capitalisation of the Company is calculated by multiplying the Share Offer Price by the number of Shares.;
3. The P/B Ratio of the Comparable Companies are calculated by dividing their respective market capitalisation as at the Last Trading Day by their respective audited annual consolidated net asset values according to their respective latest audited financial year. The implied P/B Ratio of the Company (the “**Implied P/B Ratio**”) is calculated by dividing its market capitalisation based on the Share Offer Price by the audited annual consolidated net asset value of approximately HK\$135.7 million as at 31 December 2023; and
4. The P/S Ratio of the Comparable Companies are calculated by dividing their respective market capitalisation as at the Last Trading Day by their respective audited revenue for the latest audited financial year . The implied P/S Ratio of the Company (the “**Implied P/S Ratio**”) is calculated by dividing its market capitalisation based on the Share Offer Price by the revenue of the Group of approximately HK\$246.5 million for FY2023.

*Source: Website of the Stock Exchange (<https://www.hkex.com.hk>)*

As illustrated from the table 2 above, we noted that (i) the P/B Ratio of the Comparable Companies ranges from approximately 0.08 times to 0.34 times, with mean and median of approximately 0.21 times; and (ii) the P/S Ratio of the Comparable Companies ranges from approximately 0.14 times to 0.28 times, with mean and median of approximately 0.21 times. The Implied P/B Ratio of approximately 0.16 times is below the corresponding mean and median of the

P/B Ratio of the Comparable Companies respectively and within the range of the P/B Ratio of the Comparable Companies. The Implied P/S Ratio of approximately 0.09 times is below all the P/S Ratio of the Comparable Companies. In view of the facts that:

- (i) the sample size is small with only two Comparable Companies;
- (ii) the Comparable Companies have different financial position and performance between themselves and as compared with the Company, in particular
  - (1) all the Comparable Companies recorded net assets which were higher than the Company's net assets and ranged from approximately HK\$225.7 million (approximately RMB207.1 million) of Tailam Tech Construction Holdings Ltd. to approximately HK\$960.4 million of Huasheng International Holding Limited whereas the Company recorded net assets of approximately HK\$135.7 million; and
  - (2) all the Comparable Companies recorded lesser net loss for the latest financial year than the Company's net loss for the latest financial year; and
- (iii) the P/S Ratio does not take cost and hence profitability of the company into account,

we consider that the P/B Ratio and the P/S Ratio of the Comparable Companies may not serve as a representative indication regarding the Share Offer Price and should only serve as a reference only.

## **12. Our view**

Given that

- (i) the closing price of the Shares was generally in a sideways trend throughout the Pre Joint Announcement Review Period and suddenly was on a general increasing trend after the publication of the Joint Announcement which demonstrated market speculations of certain corporate actions of the Company exist and creates concern on the stability of trading price of Shares;
- (ii) the trading volume of the Shares was low during the Pre Joint Announcement Review Period and suddenly become active after the publication of the Joint Announcement. However, such active trading volume of Shares may not be able to maintain continuously and be noted that there is a general decreasing trend of trading volume from 17,999,160 Shares on 30 September 2024 to 1,068,000 Shares as at the Latest Practicable Date during the Post Joint Announcement Review Period. Such performance

on the trading volume of Shares creates concern on whether there is sufficient liquidity for the Independent Shareholders to dispose of a significant number of Shares on the Stock Exchange without creating downward pressure on the trading price of Shares;

- (iii) the Company was in loss-making position for FY2022, FY2023, IR2023 and IR2024;
- (iv) the Company's net asset value decreased from approximately HK\$203.4 million as at 31 December 2022 to approximately HK\$135.7 million as at 31 December 2023, and further decreased to approximately HK\$114.3 million as at 30 June 2024; and
- (v) the outlook and prospect of the Group and the concrete materials sector in the PRC remain uncertain as discussed in the paragraph headed "2. Overview and outlook of the concrete materials market in the PRC" above in this letter.

Therefore, we are of the view that the Share Offer Price is fair and reasonable so far as the Independent Shareholders are concerned.

While we have also attempted to compare the terms of the Share Offer with other general offer transactions announced by other listed companies, there were no general offer transactions announced by the companies, that (a) are listed on the Stock Exchange; (b) with at least 50% of their respective total revenue contributed from manufacturing and trading of concrete products in their latest financial year; and (c) have market capitalisation at or below HK\$100 million as at the Last Trading Day, within one year prior to the Last Trading Day. We consider an offer price comparable analysis using other general offer transactions would not be meaningful without taking into account the relevant comparable business segment. As such, we are of the view that such analysis method is not appropriate to assess the fairness and reasonableness of the Share Offer Price.

## **ANALYSIS OF THE OFFER PRICE FOR THE CONVERTIBLE NOTES OFFER**

### **13. Principal terms of the Convertible Notes Offer**

Please refer to the paragraph headed "1. The Offers" above in this letter for detailed information on the principal terms of the Convertible Notes Offer.

### **14. Our view**

As set out in the paragraph headed "1. The Offers" above in this letter, the proposed offer price of the Convertible Notes is HK\$10,929 in cash for each HK\$1,000,000 face value of the Convertible Notes, determined in accordance with Rule 13 of the Takeovers Code as the



“see-through” consideration for the Convertible Notes, being the number of new Shares which the Convertible Notes could be convertible into (i.e. 1,639,344 new conversion shares (rounded down)) multiplied by the Share Offer Price of HK\$0.10 per Offer Share, valuing the total Convertible Notes Offer at approximately HK\$163,935.

We note that (i) the closing price of HK\$0.051 per Share as at the Last Trading Day implies that the market value of each of the Convertible Notes is approximately HK\$5,574 as at the Last Trading Day, representing a discount of approximately 49.0% to the offer price for each of the Convertible Notes of HK\$10,929; and (ii) the closing price of HK\$0.67 per Share as at the Latest Practicable Date implies that the market value of each of the Convertible Notes is approximately HK\$73,224 as at the Latest Practicable Date, representing a premium of approximately 570.0% to the offer price of the Convertible Notes.

We also noted that (i) the closing price of HK\$0.051 per Share as at the Last Trading Day implies that the conversion price of HK\$9.15 per conversion share is far out-of-money, representing a discount of approximately 99.4% to the conversion price of HK\$9.15 per conversion share; and (ii) the offer price of each of the Convertible Notes is HK\$10,929, representing a less out-of-money and a discount of approximately 98.9% to each of the Convertible Notes (i.e. HK\$1,000,000).

As set out in the paragraph headed “The Offers” under the section headed “Letter from Donvex Capital” in this Composite Document, the remaining Convertible Notes in the principal amount of HK\$15 million, as issued by the Company pursuant to a sale and purchase agreement dated 3 October 2013 (the “SPA”), are convertible into 1,639,344 new conversion Shares (rounded down). The Convertible Notes were issued in favour of the vendor of the SPA (the “Vendor”) as part of the consideration of the SPA. According to the Company’s circular dated 31 March 2014 in relation to the SPA, the Convertible Notes was part of the consideration of the SPA and therefore no money has been paid by the Vendor to the Company in relation to the issue of the Convertible Notes. Pursuant to the Company’s announcement dated 2 May 2014, the SPA was completed. As at the date of this Composite Document, the remaining Convertible Notes are held as to HK\$10 million legally and beneficially by the Vendor, and as to HK\$5 million by an independent third party on trust for the benefit of the Vendor. The Vendor’s entitlement to the Convertible Notes is subject to the Vendor’s due performance of the covenants, warranties and the terms and conditions under the SPA (the “CN Condition”). It is the Company’s case that the Vendor has fundamentally breached the CN Condition. According to a legal opinion dated 2 December 2019 given by the Company’s solicitors, Lam & Co., upon the fundamental breach of the SPA, it is open for the Company to argue that the CN Condition has failed and the outstanding Convertible Notes are void

and have no effect. High court action has been commenced by the Company to seek to rescind the SPA and to declare that the Convertible Notes to be null, void and have no effect. As at the date of this Composite Document, the litigation is still in progress and no judgment has been made by the Court.

Pursuant to the terms of the Convertible Notes and subject to the CN Condition, the Convertible Noteholders are entitled to convert each of the Convertible Notes into 109,289 new conversion Shares (rounded down). However, as mentioned above, as the litigation is still in progress and the Company maintains the position that the Convertible Notes are void and are not capable of converting into shares of the Company, the Convertible Notes can only be redeemed or converted until and unless the court has ruled in favour of the Convertible Noteholders. As stated in the Annual Report, the Convertible Notes were matured on 28 April 2017.

Based on the above, the Convertible Noteholders may consider (i) converting their Convertible Notes into new conversion Shares if the court has ruled in favour of the Convertible Noteholders, and if they wish to realise new conversion Shares, selling these new conversion Shares in the open market; (ii) converting their Convertible Notes into new conversion Shares if the court has ruled in favour of the Convertible Noteholders, and subject to their individual investment criteria, objectives and/ or circumstances, and if they are optimistic about the future prospects of the Group and the Share price performance, retaining the new conversion Shares; and (iii) accepting the Convertible Notes Offer to realise the Convertible Notes immediately if they wish so and would not lose all the principal amount of the Convertible Notes if the court rules against the Convertible Noteholders.

Given that (i) the Convertible Notes were matured on 28 April 2017; (ii) the closing price of the Shares was generally in a sideways trend throughout the Pre Joint Announcement Review Period and suddenly was on a general increasing trend after the publication of the Joint Announcement which demonstrated market speculations of certain corporate actions of the Company exist and creates concern on the stability of trading price of Shares, resulting in the fluctuation of the implied value of each of the Convertible Notes; (iii) the closing price of HK\$0.051 per Share as at the Last Trading Day implies that the conversion price of HK\$9.15 per conversion share is far out-of-money; and (iv) the proposed offer price of the Convertible Notes provide an opportunity for the Convertible Noteholders to realise the Convertible Notes immediately if they wish so and would not lose all the principal amount of the Convertible Notes if the court rules against the Convertible Noteholders, we consider that the offer price of the Convertible Notes is fair and reasonable and provides an assured exit alternative for the Convertible Noteholders, to realise the Convertible Notes if they wish so. In view of the above, including the possibility that the court will rule against the Convertible Noteholders, we consider the Convertible Notes Offer is a good exit opportunity for the Convertible Noteholders to realise the Convertible Notes.

Furthermore, as set out in the paragraph headed “Effect of accepting the Offers” under the section headed “Letter from Donvex Capital” in this Composite Document, acceptance of the Convertible Notes Offer by any Convertible Noteholders shall be made subject to the terms and conditions of the Convertible Notes. Details of the terms and conditions of the Convertible Notes are set out in the circular of the Company dated 31 March 2014. The Convertible Noteholders should note that, pursuant to the terms and conditions of the Convertible Notes, the Convertible Notes may not be transferred to a connected person of the Company without the prior written consent of the Company. According to the paragraph headed “Effect of accepting the Offers” under the section headed “Letter from Donvex Capital” in this Composite Document, it is the Company’s intention to grant the consent to the Convertible Noteholders to transfer the Convertible Notes to the Offeror in the event the Convertible Noteholders accept the Convertible Notes Offer. We are of the view that the Convertible Noteholders’ interest is safeguarded if they wish to accept the Convertible Notes Offer.

## **RECOMMENDATION**

### **The Share Offer**

Having considered the principal factors and reasons as discussed above, in particular,

- (i) As discussed in the paragraph headed “2. Overview and outlook of the concrete materials market in the PRC”, the outlook and prospect of the concrete materials sector in the PRC remain uncertain;
- (ii) The financial performance and position of the Group are deteriorating for FY2022, FY2023 and IR2024, in particular that (1) the Group’s revenue for the financial year decreased from approximately HK\$451.1 million for FY2022 to approximately HK\$246.5 million for FY2023; (2) the Group’s revenue for the six months period also decreased from approximately HK\$115.6 million for IR2023 to approximately HK\$100.5 million for IR2024; and (3) the Group’s net asset value decreased from approximately HK\$203.4 million as at 31 December 2022 to approximately HK\$135.7 million as at 31 December 2023, and further decreased to approximately HK\$114.3 million as at 30 June 2024;
- (iii) all the Comparable Companies were also in loss-making positions for their respective latest financial year which also demonstrates the uncertainty on the prospect of the concrete materials market in the PRC;
- (iv) the sudden increase in trading price of Shares during the Post Joint Announcement Review Period creates concern on the stability on trading price of Shares; and

- (v) the fluctuation of trading volume of Shares during the Post Joint Announcement Review Period also creates concern on whether there is sufficient liquidity for the Independent Shareholders to dispose of a significant number of Shares on the Stock Exchange without creating downward pressure on the trading price of Shares.

We are of the opinion that, the Share Offer is fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we advise the Takeovers Code Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to accept the Share Offer.

**For those Shareholders who intend to accept the Share Offer, we would remind them to closely monitor the trading price and trading volume of the Shares during the Offer Period, and having regard to their own circumstances, consider selling the Shares in the open market, instead of accepting the Share Offer, if the net proceeds from the ultimate sale of such Shares would be higher than that receivable under the Share Offer.**

**For those Shareholders who intend to dispose of large blocks of Shares in the open market, we would also remind them of the possible difficulty in disposing of their Shares in the open market without creating downward pressure on the trading price of the Shares as a result of the thin trading volume in the Shares.**

**As different Shareholders would have different investment criteria, objectives or risk appetite and profiles, we recommend any Shareholders who may require advice in relation to any aspect of the Composite Document, or as to the action to be taken, to consult a licensed securities broker, bank manager, solicitor, professional accountant, tax adviser or other professional adviser.**

### **The Convertible Notes Offer**

Given that (i) the Convertible Notes were matured on 28 April 2017; (ii) the closing price of the Shares was generally in a sideways trend throughout the Pre Joint Announcement Review Period and suddenly was on a general increasing trend after the publication of the Joint Announcement which demonstrated market speculations of certain corporate actions of the Company exist and creates concern on the stability of trading price of Shares, resulting in the fluctuation of the implied value of each of the Convertible Notes; (iii) the closing price of HK\$0.051 per Share as at the Last Trading Day implies that the conversion price of HK\$9.15 per conversion share is far out-of-money; and (iv) the proposed offer price of the Convertible Notes provide an opportunity for the Convertible Noteholders to realise the Convertible Notes immediately if they wish so and would not lose all the principal amount of the Convertible Notes if the court ultimately rules against the Convertible Noteholders, we consider that the offer price

of the Convertible Notes is fair and reasonable and provides an assured exit alternative for the Convertible Noteholders, to realise the Convertible Notes if they wish so. In view of the above, including the possibility that the court will rule against the Convertible Noteholders, we consider the Convertible Notes Offer is a good exit opportunity for the Convertible Noteholders to realise the Convertible Notes. On such basis, we advise the Takeovers Code Independent Board Committee to recommend, and we ourselves recommend, the Convertible Noteholders to accept the Convertible Notes Offer.

**Warning: For those Convertible Noteholders who intend to accept the Convertible Note Offer, we would remind them to be aware of any implication or consequences under the SPA legal proceedings, including a risk of being unable to return the Convertible Notes if the court rules so.**

**As different Convertible Noteholders would have different investment criteria, objectives or risk appetite and profiles, we recommend any Convertible Noteholders who may require advice in relation to any aspect of the Composite Document, or as to the action to be taken, to consult a licensed securities broker, bank manager, solicitor, professional accountant, tax adviser or other professional adviser.**

Yours faithfully,  
For and on behalf of  
**Dakin Capital Limited**



**Tam Kin Fong**  
*Managing Director*

*Note:* Mr. Tam Kin Fong is a responsible officer of Dakin Capital Limited, which is licensed to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has been active in the field of corporate finance advisory for over 20 years, and has been involved in and completed various corporate finance advisory transactions.

*\*for identification purpose only*