

25 March 2025

*To: The Independent Board Committee*

Dear Sirs or Madams,

**VOLUNTARY CONDITIONAL CASH PARTIAL OFFER BY SOMERLEY CAPITAL LIMITED FOR AND ON BEHALF OF ALTERNATIVE LIQUIDITY INDEX, LP TO ACQUIRE A MAXIMUM OF 85,261,250 SHARES IN THE ISSUED SHARE CAPITAL OF THE COMPANY FROM QUALIFYING SHAREHOLDERS**

**I. INTRODUCTION**

**Introduction**

We refer to our appointment as the joint independent financial advisers (“**Joint Independent Financial Advisers**”) to advise the Independent Board Committee, in relation to the Partial Offer, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the response document dated 25 March 2025 (the “**Response Document**”) issued by China Longevity Group Company Limited (the “**Company**”, collectively with its subsidiaries as the “**Group**”), of which this letter forms part. Unless the context otherwise requires, capitalized terms used in this letter shall have the same meaning as those defined in the Response Document.

Reference is made to the announcement by the Company (the “**Company Announcement**”) in relation to the Partial Offer, whereby the Board was notified in writing by a letter from Somerley Capital Limited dated 10 February 2025 that the Offeror intended to make the Partial Offer for up to 85,261,247 Offer Shares, representing approximately 10.00% of the entire issued share capital of the Company as at the date of the announcement, not already owned by the Offeror and parties acting in concert with the Offeror.

Reference is also made to the announcement of the Offeror dated 11 February 2025 (the “**Offeror Announcement**”), whereby the Offer Price and further details of the Partial Offer were announced by the Offeror. The Offer Document accompanied with the Form of Acceptance were despatched on 11 March 2025.

The making of the Partial Offer was subject to the satisfaction of the Pre-Condition, being (i) the obtaining of consent from the Executive in respect of the Partial Offer pursuant to Rule 28.1 of the Takeovers Code; and (ii) the obtaining of a waiver from requirement under Rule 28.7 of the Takeovers Code from the Executive in connection with the making of the Partial Offer for a specified range (rather than a precise number) of Shares. As disclosed in the announcement of the Offeror dated 7 March 2025 in relation to the update on the Partial Offer, the Offeror announced that the Pre-Condition had been satisfied on 7 March 2025.

As at the Latest Practicable Date, there are 852,612,470 Shares in issue with no outstanding options, warrants, derivatives or securities that carry a right to subscribe for or that are convertible or exchangeable into Shares or other types of equity interest, and as at the Latest Practicable Date, 852,612,470 Shares in issue are held by the Qualifying Shareholders.

### **The Independent Board Committee**

In accordance with Rules 2.8 of the Takeovers Code, the Independent Board Committee, comprising all of the independent non-executive Directors, namely Mr. Lau Chun Pong, Mr. Lu Jiayu and Ms. Jiang Ping, has been established to make a recommendation to the Qualifying Shareholders as to whether the Partial Offer is fair and reasonable, and as to the acceptance of the Partial Offer.

We have been appointed as the Joint Independent Financial Advisers by the Company pursuant to Rule 2.1 of the Takeovers Code with the approval of the Independent Board Committee to advise the Independent Board Committee in respect of the Partial Offer and in particular as to whether the Partial Offer is fair and reasonable, and as to the acceptance of the Partial Offer.

In the past two years, saved as the current appointment as the Joint Independent Financial Advisers in respect of the Partial Offer, we are not associated with the Company, the Offeror or any party acting, or presumed to be acting, in concert with any of them and, accordingly, considered ourselves eligible to give independent advice on the Partial Offer. Apart from normal professional fees paid or payable to us in connection with the appointment as the Joint Independent Financial Advisers of the Partial Offer, no arrangement exists whereby we will receive any fees or benefits from the Company, the Offeror or any party acting, or presumed to be acting, in concert with any of them. We are therefore independent under Rule 13.84 of the Listing Rules and under Rule 2.6 of the Takeovers Code to act as the Joint Independent Financial Advisers to the Independent Board Committee in connection with the Partial Offer.

## **II. BASIS OF OUR OPINION**

In formulating our opinion, we have relied on the information, financial information and facts supplied to us and representations expressed by the Directors and/or the management of the Group and have assumed that all such information, financial information and facts and any representations made to us or

referred to in the Company Announcement, and the Response Document, for which they are fully responsible, are true, accurate and complete as at the time they were made and as at the date hereof and made after due and careful inquiry by the Directors and/or management of the Group. We have been advised by the Directors and/or the management of the Group that all relevant information has been supplied to us and that no material facts have been omitted from the information supplied and representations expressed to us. We have also relied on certain information available to the public and have assumed such information to be accurate and reliable. We have no reason to doubt the completeness, truth or accuracy of the information and facts provided and we are not aware of any facts or circumstances which would render such information provided and representations made to us untrue, inaccurate or misleading. Should there be any subsequent material changes in such information during the Offer Period, the Company will inform the Qualifying Shareholders as soon as practicable in accordance with Rule 9.1 of the Takeovers Code. The Qualifying Shareholders shall also be informed as soon as practicable when there are any material changes to the information contained or referred to in this letter and our opinion after the Latest Practicable Date and throughout the Offer Period.

Our review and analyses were based upon, among others, the information provided by the Company and certain published information from the public domain including, (i) the annual reports of the Company for the two years ended 31 December 2022 (the “**2022 Annual Report**”) and 2023 (the “**2023 Annual Report**”); (ii) the interim reports of the Company for the six months ended 30 June 2023 (the “**2023 Interim Report**”) and 2024 (the “**2024 Interim Report**”); (iii) the Company Announcement; (iv) the Offeror Announcement; (v) the Offer Document; and (vi) other information as set out in the Response Document and considered that we have reviewed sufficient information to reach an informed view and to provide a reasonable basis for our opinion.

While we have taken reasonable steps to satisfy the requirements under the Takeovers Code and the Listing Rules, we have not carried out any independent verification of the information, opinions or representations given or made by or on behalf of the Company as set out in the Response Document, nor have we conducted an independent investigation into the business affairs or assets and liabilities of the Group or any of the other parties involved in the Partial Offer.

We consider that we have been provided with sufficient information on which to form a reasonable basis for our opinion. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any fact or circumstance which would render the information provided and representations made to us untrue, inaccurate or misleading. We consider that we have performed all the necessary steps to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our opinion. We have also assumed that all statements of opinion made by the Directors and/or the management of the Group in the Response Document were reasonably made after due enquiries and careful consideration. The Directors have confirmed that, to the best of their information and knowledge, that no material fact or information has been omitted from the information supplied and that the representations made or opinions expressed have been arrived at after due and careful consideration and there are no other facts or representations the omission of which would make any statement in the Response Document, including this letter, misleading.

We have not considered the tax and regulatory implications on the Qualifying Shareholders of acceptance or non-acceptance of the Partial Offer since these depend on their individual circumstances. In particular, the Qualifying Shareholders who are resident overseas or subject to overseas taxes or Hong Kong taxation on securities dealings should consider their own tax positions, and if in any doubt, should consult their own professional adviser.

This letter is issued for the information of the Independent Board Committee and the Qualifying Shareholders solely in connection with their consideration of the Partial Offer, and except for its inclusion in the Response Document, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

### **III. TERMS AND CONDITIONS OF THE PARTIAL OFFER**

Set out below are the summary of terms and conditions of the Partial Offer, for details please refer to the “**Letter from the Board**” as contained in the Response Document.

#### **1. Pre-Condition to the Partial Offer**

As disclosed in the Offeror Announcement, the making of the Partial Offer is subject to:

- (i) the obtaining of consent from Executive for the Partial Offer under Rule 28.1 of the Takeovers Code; and
- (ii) the obtaining of a waiver from requirement under Rule 28.7 of the Takeovers Code from the Executive in connection with the making of the Partial Offer for a specified range (rather than a precise number) of Shares.

As disclosed in the announcement of the Offeror dated 7 March 2025 in relation to the update on the Partial Offer, the Offeror announced that the Pre-Condition had been satisfied on 7 March 2025.

#### **2. Conditions to the Partial Offer**

The Partial Offer is subject to the Condition that valid acceptances are received (and not, where permitted, withdrawn) in respect of a minimum of 8,526,125 Offer Shares at or before 4:00 p.m. (Hong Kong time) on the First Closing Date which shall be at least 28 days after the Despatch Date of the Offer Document issued by the Offeror in respect of the Partial Offer, or such later date as may be extended by the Offeror in accordance with the requirements of the Takeovers Code and with the consent of the Executive.

In the event that valid acceptances are received:

- (i) for less than the required number of 8,526,125 Offer Shares by the First Closing Date, unless the First Closing Date is extended in accordance with the requirements of the Takeovers Code and with the consent of the Executive, the Partial Offer will not proceed and will lapse immediately; and

- (ii) for not less than the required number of 8,526,125 Offer Shares on or before the First Closing Date, the Offeror will declare the Partial Offer unconditional as to acceptances on or before the First Closing Date.

For the avoidance of doubt, the Company has no knowledge and information as to whether the condition above has been fulfilled as at the Latest Practicable Date.

Pursuant to the Offer Document, the Offeror will issue an announcement in relation to the revision, extension or lapse of the Partial Offer or the fulfilment of the condition above in accordance with the Takeovers Code and the Listing Rules. The latest time on which the Offeror can declare the Partial Offer unconditional in all respects is 4:00 p.m. on Tuesday, 8 April 2025 (or such later date and/or time as permitted by the Executive).

### **3. The Partial Offer**

As at the Latest Practicable Date, there are 852,612,470 Shares in issue, amongst Somerley Capital, on behalf of the Offeror, would make a voluntary conditional partial cash offer to acquire a minimum of 8,526,125 Offer Shares (representing approximately 1% of the Company's issued share capital as at the Latest Practicable Date) and a maximum of 85,261,250 Shares (representing approximately 10.00% of the Shares in issue as at the Latest Practicable Date) from the Qualifying Shareholders at the Offer Price of HK\$0.01 per Offer Share in cash.

The Offer Price of HK\$0.01 per Offer Share was determined on an arm's length commercial basis after taking into account, among other things, the prospect of the Company, the trading liquidity and the historic closing prices of the Shares on the Stock Exchange and with reference to other similar transactions in Hong Kong in recent years.

The Offer Shares to be acquired by the Offeror from the Qualifying Shareholders shall be fully paid, free from all liens, charges, encumbrances, rights of pre-emption and any other third party rights of any nature and together with all rights and benefits at any time accruing and attaching thereto, including all rights to any dividend or other distributions the record date of which falls on or after the Final Closing Date. As at the Latest Practicable Date, the Company has no declared but unpaid dividends, distributions and/or other return of capital. The Company confirms that as at the Latest Practicable Date, it does not have any intention to make, declare or pay any further dividend or make other distributions between the Latest Practicable Date and the Final Closing Date.

If, after the date of the Latest Practicable Date and up to the Final Closing Date, any dividend and distributions is declared in respect of the Offer Shares and the record date of which falls on or before the Final Closing Date, the Offeror reserves the right to reduce the Offer Price by an amount equal to the amount of such dividend or distributions declared, made or paid in respect of each Offer Share, in which case any reference in the Company Announcement, the Offeror Announcement, the Response Document or any other announcement or document to the Offer Price will be deemed to be a reference to the Offer Price as so reduced.

#### 4. Other Terms to the Partial Offer

##### *Acceptance of the Partial Offer*

The Qualifying Shareholders may accept the Partial Offer in respect of some or all of the Offer Shares held by them.

Subject to the Partial Offer becoming unconditional in all respects: (i) if valid acceptances are received for 85,261,250 Shares, all Offer Shares validly accepted will be taken up; and (ii) if valid acceptances are received for more than 85,261,250 Shares as at the Final Closing Date, the total number of Offer Shares to be taken up by the Offeror from each accepting Qualifying Shareholder will be determined by the total number of Offer Shares tendered for acceptance in accordance with the following formula:

$$\frac{A}{B} \times C$$

A	=	85,261,250 Shares, being the total number of Offer Shares for which the Partial Offer is made
B	=	the total number of Offer Shares validly tendered by all Qualifying Shareholders under the Partial Offer
C	=	the number of Offer Shares tendered by the relevant individual Qualifying Shareholder under the Partial Offer

##### *Partial nature of the Partial Offer and effect of fractions*

It is possible that, if a Qualifying Shareholder tenders all his/her/its Shares for acceptance under the Partial Offer, not all of such Shares will be taken up.

Fractions of Offer Shares will not be taken up under the Partial Offer and, accordingly, the number of Offer Shares that the Offeror will take up from each Qualifying Shareholder in accordance with the above Formula will be rounded up or down to the nearest whole number at the discretion of the Offeror, and in any event, the total number of Offer Shares to be taken up by the Offeror will not exceed the number of Offer Shares.

##### *Odd lots*

The Shares are currently traded in board lots of 1,000 Shares each. Such board lot size will not be changed as a result of the implementation of the Partial Offer. Qualifying Shareholders should note that acceptance of the Partial Offer may result in their holding odd lots of Shares. Accordingly, a designated broker has been appointed by the Offeror to match sales and purchases of odd lot holdings of Shares in the market for a period of six weeks following the closing of the Partial Offer to enable such Qualifying Shareholders to dispose of their odd lots or to top up their odd lots to whole board lots of 1,000 shares each. Please refer to section headed "Odd lots" in the "**Letter from the Board**" of the Response Document for further details.

### ***Effect of accepting the Partial Offer***

Acceptance of the Partial Offer by any Qualifying Shareholder will constitute a warranty by such Qualifying Shareholder to the Offeror that the Shares sold by it to the Offeror under the Partial Offer are fully paid, free from all liens, charges, encumbrances, rights of pre-emption and any other third party rights of any nature and together with all rights and benefits at any time accruing and attaching thereto, including all rights to any dividend or other distributions the record date of which falls on or after the Final Closing Date. As at the Latest Practicable Date, the Company has not declared any dividends or other distributions which remain unpaid.

Based on the published information of the Company available to the public as at the Latest Practicable Date, no dividend or distribution has been declared by the Company for the financial years ended 31 December 2023 and 31 December 2024 up to the Latest Practicable Date.

Acceptance of the Partial Offer shall be irrevocable and shall not be capable of being withdrawn, except as permitted under the Takeovers Code.

### ***Settlement of consideration***

Settlement of the consideration payable by the Offeror in respect of acceptance of the Partial Offer will be made as soon as possible but in any event no later than seven (7) business days after the Final Closing Date. Further details regarding the timing of settlement of the consideration payable by the Offeror in respect of acceptance of the Partial Offer will be set out in the Offer Document.

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

## **IV. PRINCIPAL FACTORS AND REASONS CONSIDERED**

Besides the terms and conditions of the Partial Offer mentioned in the previous chapter, we have considered the following principal factors and reasons in arriving at our recommendations in respect of the Partial Offer:

### **1. Background information of the Group**

The Company is a Hong Kong-based company principally engaged in the design, development, manufacture and sales of polymer processed high strength polyester fabric composite materials and other reinforced composite materials, conventional materials and downstream-related inflatable and waterproof products (including double wall fabric, tent materials, architectural membranes, airtight materials, sports materials, large scale inflatable toys and water sports products, among others) which

are applied in various industries (including the transportation industry, the construction industry, the renewable energy industry, the agriculture industry, the outdoor leisure industry, the entertainment industry and the sports industry). The Company mainly operates businesses in China.

## 2. Analysis of the financial information of the Group

### (i) Financial performance of the Group

The following table summarises the consolidated audited financial results of the Group for the years ended 2022 and 2023, and consolidated unaudited financial results of the Group for the six months ended 30 June 2023 and 30 June 2024 which are extracted from the 2024 Interim Report and 2023 Annual Report:

	For the six months ended 30 June		For the year ended 31 December	
	2024 (unaudited) RMB'000	2023 (unaudited) RMB'000	2023 (audited) RMB'000	2022 (audited) RMB'000
Revenue	532,153	447,722	933,930	926,621
Gross profit	92,735	82,013	186,038	146,320
Gross profit margin	17.43%	18.32%	19.92%	15.79%
Administrative expenses	(58,300)	(43,084)	(83,188)	(77,116)
Profit (loss) before taxation	22,850	19,861	64,653	48,858

*Financial performance for the six months ended 30 June 2023 (the “6M2023”) and the six months ended 30 June 2024 (the “6M2024”)*

As set out in the 2024 Interim Report, the Group recorded revenue of approximately RMB532.2 million for the six months ended 30 June 2024, representing an increase of approximately 18.86% from approximately RMB447.7 million for the six months ended 30 June 2023 because of the introduction of new material products that was well-received by the market, while the Group’s gross profit amounted to approximately RMB92.74 million for the six months ended 30 June 2024 compared to approximately RMB82.01 million for the six months ended 30 June 2023, representing an increase of approximately 13.07%. The gross profit margin was approximately 17.43%, compared to 18.32% for the same period last year. The decline in gross profit margin can be attributed primarily to a decrease in selling prices of building material products, which resulted from the economic downturn in European and American markets regarding to the instability of international geopolitics and consumer demand, as well as the political turbulence affecting Sino-American trade relations.



Profit before taxation of the Company amounted to approximately RMB22.85 million for the six months ended 30 June 2024 compared to approximately RMB19.86 million for the six months ended 30 June 2023, representing an increase of approximately 15.05%. The slight increase in profit for the period was primarily driven by an (i) increase in revenue and (ii) additional income and gains that constitute a rise of RMB12 million mainly gain from government subsidies; however, this was offset by a rise in administrative expenses.

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

As set out in the 2023 Annual Report, the Group recorded revenue of approximately RMB933.9 million for the year ended 31 December 2023, representing an increase of approximately 0.79% from approximately RMB926.6 million for the year ended 31 December 2022, while the Group’s gross profit amounted to approximately HK\$186 million for the year ended 31 December 2023 compared to approximately HK\$146.3 million for the year ended 31 December 2022, representing an increase of approximately 27.14% which mainly due to the decrease of products purchases cost.

Profit before taxation of the Company amounted to approximately HK\$64.65 million for the year ended 31 December 2023 compared to approximately HK\$48.86 million for the year ended 31 December 2022, representing an increase of approximately 32.33%. The year-on-year increase in profit for the year attributable to the owners of the Company was primarily due to (i) increase in revenue which mainly caused by the rise in demand of the material products; (ii) increase in gross profit margin was mainly attributable to the decrease in purchase costs for the year ended 31 December 2023.

(ii) *Financial position of the Group*

A summary of the unaudited financial position of the Group as at 30 June 2024, and the audited financial position of the Group as at 31 December 2023, as extracted from the 2024 Interim Report is set out below:

	<b>For the six months ended 30 June 2024</b> (unaudited) <i>RMB'000</i>	<b>For the year ended 31 December 2023</b> (audited) <i>RMB'000</i>
<b>Non-Current Assets</b>		
Property, plant and equipment	965,288	903,117
Right-of-use assets	85,096	85,187
Investment properties	34,815	34,822
Intangible assets	1,441	1,505
Interest in an associate	13,064	12,900
Deposits paid for acquisition of property, plant and equipment	23,978	28,616
Equity investments at fair value through other comprehensive income	4,140	4,140
Deferred tax assets	2,655	2,683
	<u>1,130,477</u>	<u>1,072,970</u>
<b>Current Assets</b>		
Inventories	276,084	232,334
Trade and bills receivables	251,501	226,689
Prepayments, deposits and other receivables	70,589	74,623
Pledged bank deposits	44,500	38,978
Cash and cash equivalents	54,110	64,355
	<u>696,784</u>	<u>636,979</u>
<b>Total assets</b>	<u>1,827,261</u>	<u>1,709,949</u>
<b>Current Liabilities</b>		
Trade and bills payables	287,586	241,932
Lease liabilities	790	867
Contract liabilities	11,384	7,315
Other payables and accruals	35,958	45,676
Interest-bearing borrowings	143,632	156,494
Deferred income	380	380
Due to a director	18	17
Tax payable	7,459	7,593
	<u>487,207</u>	<u>460,274</u>
<b>Non-Current Liabilities</b>		
Interest-bearing borrowings	516,500	460,064
Lease liabilities	2,995	2,141
Deferred income	28,238	12,998
Deferred tax liabilities	16,367	16,316
	<u>564,100</u>	<u>491,519</u>
<b>Total liabilities</b>	<u>1,051,307</u>	<u>951,793</u>
<b>Net assets</b>	<u>775,954</u>	<u>758,156</u>

We noted from the 2024 Interim Report and 2023 Annual Report that the Group recorded net asset of the Company of approximately RMB776.0 million as at 30 June 2024 compared to approximately RMB758.2 million as at 31 December 2023.

The total assets of the Group amounted to approximately RMB1,827.3 million as at 30 June 2024 and approximately RMB1,710.0 million as at 31 December 2023, respectively, representing an increase of 6.86% in the total assets. As at 30 June 2024, the non-current assets of the Group comprise mainly (i) property, plant and equipment of approximately RMB965.3 million compared to approximately RMB903.1 million as at 31 December 2023 due to acquisition of property, plant and equipment for the construction of Sijia (Fuqing) Industrial Park; and (ii) right-of-use assets amounting to approximately RMB85.10 million compared to approximately RMB85.19 million as at 31 December 2023. As at 30 June 2024, the current assets of the Company comprised mainly (i) inventories of approximately RMB276.1 million compared to approximately RMB232.3 million as at 31 December 2023, which attributed to the strategic procurement for material commodity and the commencement of production of Sijia (Fuqing) Industrial Park; (ii) trade and bills receivables of approximately RMB251.5 million compared to approximately RMB226.7 million as at 31 December 2023; and (iii) prepayments, deposits and other receivables of approximately RMB70.59 million compared to approximately RMB74.62 million as at 31 December 2023.

The total liabilities of the Group amounted to approximately RMB1.05 billion as at 30 June 2024 and approximately RMB951.8 million as at 31 December 2023, respectively, representing an increase of 10.46% in the total liabilities. The total liabilities of the Group as at 30 June 2024 mainly comprising (i) trade and bills payables amounting to RMB287.6 million compared to approximately RMB241.9 million as at 31 December 2023; and (ii) interest-bearing borrowings of RMB660.1 million compared to approximately RMB616.6 million as at 31 December 2023.

### **3. Background and intension of the Offeror**

#### ***(i) Background of the Offeror***

As set out in the “**Letter from Somerley Capital**” contained in the Offer Document, the Offeror is a fund in the form of a Delaware incorporated limited partnership managed by Alternative Liquidity GP LLC (which conducts business using the name Alternative Liquidity Capital) which acts as its general partner and investment manager responsible for managing the portfolio of the Offeror (“**Alternative Liquidity**”). Alternative Liquidity, based in the state of Minnesota in the United States, is in the business of providing liquidity solutions to investors in delisted and non-traded securities globally by making offers for such securities which, after taking into account risk-reward assessments based on information and know-how available to it, are consistent with its long-term investment strategy. Alternative Liquidity has successfully completed more than 20 partial tender offers in the United States, Australia, and other jurisdictions. As of December 31, 2024, Alternative Liquidity had approximately US\$14 million in assets under management.

Further details are set out in the “**Letter from Somerley Capital**” contained in the Offer Document.

*(ii) Intention of the Offeror*

As set out in the “**Letter from Somerley Capital**” contained in the Offer Document, the Partial Offer is not intended as disruptive but rather as a means to take an investment position in a long-suspended company. Further details are set out in the “**Letter from Somerley Capital**” contained in the Offer Document.

*(iii) Public Float of the Company*

As disclosed in the Letter from the Board, the Company had a public float of approximately 51.81% of the Shares in issue as at the Latest Practicable Date. Assuming (i) full acceptances of the Partial Offer by the Qualifying Shareholders; and (ii) that there are no changes to the issued share capital of the Company between the Latest Practicable Date and up to the Final Closing Date, the Company will have a public float in excess of 25% of the Shares in issue immediately following the close of the Partial Offer. Accordingly, the number of Shares in public hands will continue to meet the 25% minimum public float requirement under Rule 8.08 of the Listing Rules.

As disclosed in the Offer Document, the Offeror intends that the Company to remain listed on the Stock Exchange. Please refer to “**Letter from Somerley Capital**” contained in the Offer Document.

*(iv) Public Float of the Company*

The Offeror will not have the power of compulsory acquisition of any Offer Shares outstanding and not acquired under the Partial Offer after the close of the Partial Offer. Further details are set out in the “**Letter from Somerley Capital**” contained in the Offer Document.

*(v) Size of the Partial Offer*

The Offeror intends to acquire an amount no less than 8,526,125 Offer Shares (being the minimum number required for the Partial Offer to become unconditional) but no more than the maximum of 85,261,250 Offer Shares at the Offer Price in cash from the Qualifying Shareholders. Upon the completion of the Partial Offer, the Offeror will hold no more than approximately 10% of the Company’s issued share capital as of the Latest Practicable Date.

*(vi) The Offeror’s intention in relation to the Partial Offer*

As stated in the Offer Document, Alternative Liquidity is seeking to establish an ownership interest in the Shares for passive investment purposes. Since the Offeror intends to establish ownership for passive investment purpose only with the maximum of approximately

10% of the Company's issued share capital as of the Latest Practicable Date, no specific or detailed plans regarding the Group's business or its employees were provided in the Offer Document.

**(vii) Our view**

We acknowledge that the Offeror has stated its intention for the Partial Offer as a passive investment. As the Offeror's intentions appear to support business continuity, we believe that the Partial Offer does not pose any risk to (i) the Company's business and operations, and (ii) the interests of the Company and the Qualifying Shareholders as a whole.

**4. Future prospects and recent developments of the Group**

**(a) Business performance and prospects of the Group**

As disclosed in the Letter from the Board, the Group is principally engaged in the design, development, manufacture and sale of (i) polymer processed high strength polyester fabric composite materials and other reinforced composite and conventional materials; and (ii) PVC and Non-PVC composite materials of floorings and wall panels, with primary operation in the PRC.

As set out in the 2024 Interim Report, the Group recorded revenue of approximately RMB532.2 million for the six months ended 30 June 2024, representing an increase of approximately 18.86% from approximately RMB447.7 million for the six months ended 30 June 2023, while the Group's gross profit amounted to approximately RMB92.74 million for the six months ended 30 June 2024 compared to approximately RMB82.01 million for the six months ended 30 June 2023, representing an increase of approximately 13.07%.

According to the 2024 Interim Report, the Group focuses on high-performance polyvinyl chloride ("PVC") composite materials division, located in Fuzhou and Shanghai, utilizes patented, proprietary processes to manufacture a range of materials, including drop stitch fabric, architectural films, and inflatable boat materials. Simultaneously, the Group focus in distributing products for wide spectrum of applications in education, healthcare, commerce, and more, all compliant with EU and U.S. standards. Through these efforts, the Group is dedicated to leading the way in sustainable industrial practices while meeting the diverse needs of the market.

We have conducted independent research to understand the overall performance of the People's Republic of China ("PRC")'s PVC related industries which would likely affect the Group's business, and we noted that according to the article by the China Commodity Data Group ([https://www.sunsirs.com/uk/detail\\_news-22555.html](https://www.sunsirs.com/uk/detail_news-22555.html)) published on 22 January 2025, the market has performed strongly. The data is reliable since the data has widely recognized by industry professionals and serves as a primary source for China's government agencies. In 2024, total PVC production reached approximately 20.49 million tons, reflecting a year-on-year increase of 2.5%. However, the real estate sector, which accounts for about 65% of PVC demand, has faced challenges due to sluggish market conditions. Despite these difficulties in

the real estate sector, the PVC industry is moving forward with plans to increase production capacity. As of December 2024, the effective production capacity of the PVC industry was 28 million tons, with plans to add 2.5 million tons of new production primarily through the ethylene method in construction development. This commitment to expanding production indicates that the PVC market remains optimistic about future demand, even in the face of current challenges. The industry's ability to adapt and grow suggests a confidence in the diversification of PVC applications beyond real estate, such the increase demands as in infrastructure projects, automotive components, and sustainable building materials which lead to the rise of PVC demands. Consequently, while the real estate sector is a significant driver of PVC demand, the ongoing production expansion reflects broader market potential and resilience in the PVC industry.

From January to October 2024, PVC powder, the substance of PVC, exports totaled 2.17 million tons, up 13.87% year-on-year, while imports decreased by 42.68% to 183,200 tons, with the Indian market accounting for about 50% of exports pursuant to an industry analysis published on the website of the China Baogao (中國報告大廳) in January 2025 (<https://m.chinabgao.com/freereport/98063.html>) since the data source has been leveraged from the Development Research Center of the State Council. However, ongoing anti-dumping investigations in India have negatively impacted domestic export activities.

Looking ahead, the supply-demand imbalance for PVC is expected to intensify in 2025 due to increased production capacity and continued downward pressure on demand from the real estate sector, complicating efforts to reduce high midstream inventory levels. Overall, the PVC market in 2024 is anticipated to experience low-level fluctuations, characterized by supply-demand discrepancies and sustained price suppression. This may lead to continued oversupply conditions in 2025 compared to 2024, resulting in prices fluctuating between RMB4,800 and 6,200 per ton.

While demand from exports and the real estate sector significantly influences the PVC industry, the versatility of PVC makes it increasingly relevant under sustainable development policies, thereby expanding its overall demand. Although the PVC market currently faces fluctuations in short-term demand, its long-term prospects in various construction material applications remain promising. Moreover, as environmental regulations become more stringent, PVC's ability to meet energy-saving and eco-friendly requirements positions it favorably in the market. The Group's production capabilities align well with these industry trends, reinforcing the confidence in the future of PVC. Therefore, we are of the view that the manufacture and sale of PVC and related products will continue to benefit from rising infrastructure construction demands in the PRC and globally, ultimately supporting the Group's business, even if a slight surplus conditions lead to price fluctuations in the market.

As such, we are of the view that the Group is well-positioned to capture new growth opportunities in both domestic and international markets, which is expected to contribute positively to its long-term development and market presence.

**(b) *The suspension of trading and the regulatory concerns of the SFC***

References are made to the announcements of the Company dated 13 June 2014, 18 September 2017, 1 August 2018, 26 October 2018, 9 November 2018, 11 December 2018, 11 February 2019, 30 April 2019, 18 June 2019, 2 August 2019, 4 November 2019, 3 February 2020, 31 July 2020, 3 November 2020, 29 January 2021, 11 May 2021, 28 July 2021, 29 October 2021, 27 January 2022, 29 April 2022, 29 July 2022, 28 October 2022, 31 January 2023, 28 April 2023, 31 July 2023, 31 October 2023, 2 February 2024, 2 May 2024, 31 July 2024, 31 October 2024 and 28 January 2025, in relation to, among other things, the suspension of trading in the Shares.

*The regulatory concerns of the SFC*

On 23 December 2019, the Company, upon the suggestion of the Securities and Futures Commission (“**the Commission**”), submitted a written representation to the Board of the Commission (“**the Commission’s Board**”) pursuant to Section 9 of the Securities and Futures (Stock Market Listing) Rules (“**SMLR**”) to address the concerns raised by the Commission in its “Show Cause Letter” dated 24 November 2014 (“**the Resumption Application**”).

According to a letter from the Commission Secretary to the Enforcement Division of the Commission (“**ENF**”) dated 8 May 2020, the Commission’s Board had considered the Resumption Application at its meeting on 7 May 2020. The said meeting was adjourned for the Board to seek clarifications from ENF on several questions.

According to a letter from the Commission Secretary to the ENF and the Company dated 5 March 2021, the Commission’s Board had considered the Resumption Application at its adjourned meeting on 22 February 2021. The said meeting was again adjourned pending further information from the Company.

The Company understands that up to the Latest Practicable Date the Commission’s Board has not made a decision on the Resumption Application and may seek further information from the Company.

*The suspension of trading*

The Shares have been suspended from trading on the Stock Exchange since 14 February 2013.

As previously provided in the Company’s announcement on 18 June 2019, the Stock Exchange had confirmed that it would, until further notice, withhold exercising its right to delist the Company under Rule 6.01A(2)(b)(ii) should the trading in the Shares remain suspended on 31 July 2019.

As of the Latest Practicable Date, the Company has not received any notice from the Stock Exchange stating that it is proceeding to delist the Company.

We remind the Qualifying Shareholders that if the listing status of the Company is eventually cancelled by the Stock Exchange, they will be holding the Shares of an unlisted public/private company, where trading of the Shares will no longer be easily accessible and no information transparency as compared to the platform offered by the Stock Exchange.

Accordingly, despite the fact that the Offer Price represents a discount of approximately 99% compared to the closing price of the Shares before trading was suspended on 14 February 2013, we are of the view that the Partial Offer presents an opportunity for Qualifying Shareholders to exit, with the suspension of the trading in the Shares in place until the Company remedies the issues causing its trading suspension.

## **5. Evaluation on the Offer Price**

### ***(a) The Offer Price***

The Offer Price of HK\$0.01 per Offer Share represents:

- (i) a discount of approximately 99.3% to the closing price of HK\$1.37 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) a discount of approximately 99.3% to the closing price of HK\$1.37 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (iii) a discount of approximately 99.3% to the closing price of HK\$1.49 per Share as quoted on the Stock Exchange on the Last Full Trading Date;
- (iv) a discount of approximately 99.3% to the average of the closing prices of the Shares of approximately HK\$1.52 as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Full Trading Date;
- (v) a discount of approximately 99.4% to the average of the closing prices of the Shares of approximately HK\$1.54 as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Full Trading Date;
- (vi) a discount of approximately 99.4% to the average of the closing prices of the Shares of approximately HK\$1.61 as quoted on the Stock Exchange for the last thirty consecutive trading days up to and including the Last Full Trading Date;
- (vii) a discount of approximately 98.8% to the audited consolidated net asset value per Share attributable to the Shareholders of approximately HK\$0.8598 as at 31 December 2023, calculated based on the audited consolidated net asset value of the Company attributable to Shareholders of approximately RMB676,424,000 as



at 31 December 2023 and 852,612,470 Shares in issue as at the Latest Practicable Date, and a RMB: HKD forex rate of 1:1.0837 as quoted by Hong Kong Association of Banks as at the Latest Practicable Date; and

- (viii) a discount of approximately 98.9% to the unaudited consolidated net asset value per Share attributable to the Shareholders of approximately HK\$0.8854 as at 30 June 2024, calculated based on the unaudited consolidated net asset value of the Company attributable to Shareholders of approximately RMB696,584,000 as at 30 June 2024 and 852,612,470 Shares in issue as at the Latest Practicable Date, and a RMB: HKD forex rate of 1:1.0837 as quoted by Hong Kong Association of Banks as at the Latest Practicable Date.

***Highest and lowest Share prices***

The Shares has been suspended from trading since 14 February 2013 (i.e. the Last Trading Day) and over the six-month period immediately before the date of the Latest Practicable Date. During the six-month period immediately preceding and including the Last Trading Day (i.e. from 15 August 2012 to 14 February 2013):

- (i) the highest closing price of the Shares as quoted on the Stock Exchange was HK\$1.93 per Share on 23 and 24 August 2012; and
- (ii) the lowest closing price of the Shares as quoted on the Stock Exchange was HK\$1.31 per Share on 17 December 2012.

***(b) Comparison of Offer Price against NAV per Share***

We noted that the net asset value attributable to the Shareholders per Share (“NAV per Share”) was approximately HK\$0.98 (equivalent to approximately RMB0.91 based on an exchange rate of RMB1=HK\$1.0862 as published by the Hong Kong Association of Banks on its website on 28 June 2024) as at 30 June 2024 and HK\$0.99 (equivalent to approximately RMB0.89 based on an exchange rate of RMB1=HK\$1.110 as published by the Hong Kong Association of Banks on its website on 29 December 2023) as at 31 December 2023, respectively. The Offer Price of HK\$0.01, represents the discount of approximately 99% to the NAV per Share of the Group. As the share price has been stopped regarding to the suspension of share trading in 2013, the closing share price of the Last Trading Day HK\$1.37 per Share represented the premium of approximately 39.2% to the NAV per Share. We noted that the Offer Price of HK\$0.01 to the Offer Shareholders is less favourable than the closing price of the Shares of HK\$1.37 as of Latest Practicable Date, which represented at a premium of approximately 39.2% of the NAV per Share.

We also noted that (i) the asset of the Group as at 30 June 2024 and 31 December 2023 mainly consist of tangible asset; and (ii) the Group’s NAV, remained a level between approximately RMB758.2 million and RMB776.0 million for as at as at 30 June 2024 and 31 December 2023 as discussed in the section “Financial position of the Group” in this letter of advice. We, after considering (i) the nature of assets of the Group, (ii) the steady NAV per

share for the Group, and (iii) the discount of approximately 99% to the NAV per Share of the Group for the Offer Price, are of the view that the Offer price is not fair and reasonable when comparing with the NAV per Share of the Group.

*(c) Trading volume and historical performance of the Shares*

Taking into account the fact that the Shares have been suspended from trading on the Stock Exchange since 14 February 2013. Therefore, we are of the view that a comparable analysis may not be applicable in assessing the fairness and reasonableness of the Partial Offer.

*(d) Comparison against comparable companies*

According to an article published in 2025 as the CFA Program Level II Curriculum on the website of CFA Institute (<https://www.cfainstitute.org/insights/professional-learning/refresher-readings/2025/market-based-valuation-price-enterprise-value-multiples>), headed “Market-Based Valuation: Price and Enterprise Value Multiples”, price multiples are most frequently applied to valuation in the method of comparable. We consider this article a credible source, as the CFA Institute is a globally recognized organization that provides investment professionals with education, ethical standards, and certification programs. This method involves using a price multiple to evaluate whether an asset is relatively undervalued, fairly valued, or overvalued in relation to a benchmark value of the multiple. Among the price multiples, commonly used multiples include the price to book ratio (“**P/B**”) and price to earnings ratio (“**P/E**”).

We have selected the P/B and P/E for the purpose of the comparable company analysis because we consider such ratios to be suitable valuation methodologies as they are common financial analysis tools used to evaluate companies with a proven track record. We have also considered price-to-sales ratio analysis. Nonetheless, we noted that not all comparable companies are profit-making, and that the conditions of a profit-making company like the Company and a loss-making company could be different. We also considered that the P/E Ratio is a better alternative than the price-to-sales ratio for the purpose of this analysis as while the former also emphasizes financial performance of the companies, it screens out loss-making companies which could have different operational and financial conditions than profit-making companies like the Company, such that the comparison could be more meaningful. Therefore, we did not adopt the price-to-sales ratio comparison in our analysis.

As the price multiples analysis is a commonly adopted valuation method in the market generally applicable to different industries, to further assess the fairness and reasonableness of the Offer Price, we have attempted to identify the comparable companies (the “**Comparable Companies**”) which are (i) listed on the Main Board of the Stock Exchange, (ii) principally engaged in materials businesses which specialize in specialty chemicals, with over 75% of total revenue for latest full financial year being generated from the aforesaid business; (iii) with market capitalisation of between HK\$500 million and HK\$2 billion as at the Latest Practicable Date; and (iv) without suspension of trading on the Latest Practicable Date, given that (a) over 75% of the revenue of the Group is generated from materials businesses which specialize in specialty chemicals for the year ended 31 December 2023; and (b) the market capitalisation of

the Company was approximately HK\$1.17 billion as at the Last Trading Day (based on the total issued shares of 852,612,470 Shares and the closing price per Share as at Latest Practicable Date of HK\$1.37). Based on the above selection criteria, we have identified five Comparable Companies and we consider those Comparable Companies to be fair, representative and exhaustive samples. Nevertheless, it should be noted that the operations and prospects of the Comparable Companies are not the same as the Company and we have not conducted any investigation into the businesses, operations and prospects of the Comparable Companies, the Comparable Companies are in the same industry of specialty chemicals.

The following table sets out (a) the P/B and P/E of the Comparable Companies based on their closing share price as at the Latest Practicable Date and their latest published financial information; and (b) the implied P/B and P/E of the Company based on the Offer Price and its latest published financial information:

Company Name	Stock Code	Principal Business	Market Cap	P/E Ratio	P/B Ratio
Yip's Chemical Holdings Limited	00408	principally engaged in chemical businesses	854,443,947	14.10	0.22
Tiande Chemical Holdings Ltd	00609	principally engaged in the chemical business	1,000,256,520	3.89	0.35
Infinity Development Holdings Company Limited	00640	principally engaged in the trading of adhesives	540,817,033	5.39	0.93
Tsaker New Energy Tech Co Ltd	01986	principally engaged in the manufacture and sale of dye and agricultural chemical intermediates	718,479,320	14.32	0.32
Wuhan Youji Holdings Ltd	02881	primarily engaged in the production toluene derivatives	585,924,000	7.24	1.00
	Average			8.99	0.56
	Maximum			14.32	1.00
	Minimum			3.89	0.22
	Median			7.24	0.35
The Company	01863	principally engaged in chemical materials businesses		0.13	0.01

*Source: the Stock Exchange web-site (www.hkex.com.hk)*

Having consider the Comparable Companies to be relevant for comparison purpose as the Comparable Companies (i) are engaged in business similar to the Group; (ii) have similar market capitalisation as the Group; (iii) are listed on the Stock Exchange and hence share similar market sentiment of the Company; and (iv) represent an exhaustive list of companies meeting the aforementioned criteria, we are of the view that the Comparable Companies are comparable and representative for our analysis purpose.

As discussed in section “Comparison of price to earning ratio of the Offer Price against historical PE Ratio” above, the Implied P/E Ratio of the Company implied by the Offer Price is approximately 0.13 times. As set out in the table above, the P/E Ratio of the Comparable Companies ranged from approximately 3.89 times to approximately 14.32 times (the “**Comparable P/E Range**”) with an average of approximately 8.99 times (the “**Comparable Average P/E**”) and a median of approximately 7.24 times (the “**Comparable Median P/E**”). Given that the Implied P/E Ratio is not only lower than both the Comparable Average P/E and the Comparable Median P/E but also falls outside the Comparable P/E Range, this indicates that the Offer Price is significantly undervalued when compared to industry peers. As such, we are of the view that the Offer Price is not fair and reasonable so far as the Qualifying Shareholders are concerned.

Based on the Offer Price of HK\$0.01 per Offer Share and the total number of issued Shares of 852,612,470 as at the Latest Practicable Date, the Company is valued at approximately HK\$8.5 million. The P/B Ratio of the Company implied by the Offer Price is approximately 0.01 times (the “**Implied P/B Ratio**”) based on the audited consolidated net asset value attributable to the owners of the Company of approximately HK\$841.6 million as at 31 December 2023 (equivalent to approximately RMB758.2 million based on an exchange rate of RMB1=HK\$1.110 as published by the Hong Kong Association of Banks on its website on 29 December 2023). As set out in the table above, the P/B Ratio of the Comparable Companies ranged from approximately 0.22 times to approximately 1.00 times (the “**Comparable P/B Range**”) with an average of approximately 0.56 times (the “**Comparable Average P/B**”) and a median of approximately 0.35 times (the “**Comparable Median P/B**”). Given that the Implied P/B Ratio is not only lower than both the Comparable Average P/B and the Comparable Median P/B but also falls outside the Comparable P/B Range, this indicates that the Offer Price is significantly undervalued when compared to industry peers. As such, we are of the view that the Offer Price is not fair and reasonable so far as the Qualifying Shareholders are concerned

*(e) Comparison against partial offer precedents*

For the purpose of our analysis of the Offer Price, we have attempted to identify the partial cash offer comparable cases (the “**Partial Cash Offer Comparables**”) based on the following criteria: (i) the company subject to the partial offer is publicly listed on the Stock Exchange; (ii) the partial cash offer comparable cases were first announced during the period of one year before the Latest Practicable Date and including the Latest Practicable Date; and (iii) the partial cash offer comparable cases were not lapsed.

Company Name	Stock Code	First announced by the offeror	% of maximum size of total issued shares of the offer	% of holdings of offeror and parties acting in concert with it immediately after the closing of the partial offer	The offer price to the closing price per Share on the latest practicable date	The offer price to the closing price per Share on the last trading day	The offer price to the average of the closing price per Share for the last five consecutive trading days up to and including the last trading date	The offer price to the audited consolidated net asset value per Share attributable to the Shareholders
Hunlicar Group Limited	03638	20/2/2025	25.11%	50.16% (Note 1)	- 11.24%	- 11.07%	- 12.69%	23.29%
Greentech Technology International Limited	00195	14/1/2025	15%	0.93%	- 50%	- 50%	- 65.09%	- 80.97%
Elife Holdings Limited	00223	1/11/2024	5%	5.58% (Note 2)	0.90%	- 7.60%	- 11.30%	20.20%
China Tontine Wines Group Ltd	00389	12/6/2024	10%	14.90%	11.10%	0%	0.67%	- 59.41%
Hengdeli Holdings Limited	03389	20/6/2024	15%	61.66%	14.30%	18.50%	19.20%	- 80%
Average					- 6.99%	- 10.03%	- 13.84%	- 35.38%
Maximum					14.30%	18.50%	19.20%	23.29%
Minimum					- 50.00%	- 50.00%	- 65.09%	- 80.97%
Median					0.90%	- 7.60%	- 11.30%	- 59.41%
The Company	01863	11/2/2025		10.00%	- 99.30%	- 99.30%	- 99.30%	- 98.80%

*Note 1:* Assuming the Maximum Number of Offer Shares is tendered for acceptance by the Qualifying Shareholders under the Partial Offer as it has not yet closed on the Latest Practicable Date

*Note 2:* The Offer Shares is tendered for acceptance by the Qualifying Shareholders under the Partial Offer as it has not yet closed on the Latest Practicable Date

Having consider the Partial Cash Offer Comparables to be relevant for comparison purpose as the Partial Cash Offer Comparables (i) are engaged in partial cash offer similar to the Group; (ii) are engaged within a year and have been closed partial offer; (iii) are listed on the Stock Exchange; and (iv) represent an exhaustive list of companies meeting the aforementioned criteria, we are of the view that the Partial Cash Offer Comparables are comparable and representative for our analysis purpose.

As discussed in section “Comparison of the offer price to the closing price per Share on the latest practicable date” above, the offer price to the closing price per Share on the latest practicable date (the “**LPD Price**”) of the Company implied by the Offer Price represent a discount of approximately 99.3% to the closing price of HK\$1.37 per Share as quoted on the Stock Exchange on the Latest Practicable Date. As set out in the table above, the LPD Price of the Partial Cash Offer Comparables ranged from a discount of approximately 50% to a premium of approximately 14.30% (the “**Comparable LPD Price Range**”) with an average of a discount of approximately 6.99% (the “**Comparable Average LPD Price**”) and a median of a premium of approximately 0.90% (the “**Comparable Median LPD Price**”). Given that the

LPD Price is not only discount the most than both the Comparable Average LPD Price and the Comparable Median LPD Price but also falls outside the Comparable LPD Price Range, this indicates that the Offer Price is significantly discounted to closing price per Share on the Latest Practicable Date when compared to the companies engaged in Partial Cash Offer Comparables. As such, we are of the view that the Offer Price is not fair and reasonable so far as the Qualifying Shareholders are concerned.

As mentioned in section “Comparison of the offer price to the closing price per Share on the last trading day” above, the offer price to the closing price per Share on the last trading day (the “**LTD Price**”) of the Company implied by the Offer Price represent a discount of approximately 99.3% to the closing price of HK\$1.37 per Share as quoted on the Stock Exchange on the Last Trading Day. As set out in the table above, the LTD Price of the Partial Cash Offer Comparables ranged from a discount of approximately 50% to a premium of approximately 18.50% (the “**Comparable LTD Price Range**”) with an average of a discount of approximately 10.03% (the “**Comparable Average LTD Price**”) and a median of a discount of approximately 7.60% of the offer price to the closing price per Share on the last trading day (the “**Comparable Median LTD Price**”). Given that the LTD Price is not only discount the most than both the Comparable Average LTD Price and the Comparable Median LTD Price but also falls outside the Comparable LTD Price Range, this indicates that the Offer Price is significantly discounted to closing price per Share on the Last Trading Day when compared to the companies engaged in Partial Cash Offer Comparables. As such, we are of the view that the Offer Price is not fair and reasonable so far as the Qualifying Shareholders are concerned.

In the section of “Comparison of the offer price to the closing price per Share for the last five consecutive trading days up to and including the last trading date” above, the offer price to the average of the closing price per Share for the last five consecutive trading days up to and including the Last Trading Date (the “**Last Five Consecutive Trading Days Price**”) of the Company implied by the Offer Price represent a discount of approximately 99.3% to the closing price of approximately HK\$1.52 as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Full Trading Date. As set out in the table above, the Last Five Consecutive Trading Days Price of the Partial Cash Offer Comparables ranged from a discount of approximately 65.09% to a premium of approximately 19.20% (the “**Comparable Last Five Consecutive Trading Days Price Range**”) with an average of a discount of approximately 13.84% (the “**Comparable Average Last Five Consecutive Trading Days Price**”) and a median of a discount of approximately 11.30% (the “**Comparable Median Last Five Consecutive Trading Days Price**”) of the offer price to average of the closing price per Share for the last five consecutive trading days up to and including the Last Trading Date. Given that the Last Five Consecutive Trading Days Price is not only discount the most than both the Comparable Average Last Five Consecutive Trading Days Price and the Comparable Median Last Five Consecutive Trading Days Price but also falls outside the Comparable Last Five Consecutive Trading Days Price Range, this indicates that the Offer Price is significantly discounted to closing price per Share for the last five consecutive trading days up to and including the Last Full Trading Date when compared to the companies engaged in Partial Cash Offer Comparables. As such, we are of the view that the Offer Price is not fair and reasonable so far as the Qualifying Shareholders are concerned.

Based on the Offer Price of HK\$0.01 per Offer Share and the total number of issued Shares of 852,612,470 as at the Latest Practicable Date, the audited consolidated net asset value per Share attributable to the Shareholders of approximately HK\$0.8598 as at 31 December 2023, calculated based on the audited consolidated net asset value of the Company attributable to Shareholders of approximately RMB676,424,000 as at 31 December 2023, and a RMB: HKD forex rate of 1:1.0837 as quoted by Hong Kong Association of Banks as at the Latest Practicable Date. The offer price to the audited consolidated net asset value per Share attributable to the Shareholders (the “**NAV per Share Price**”) of the Company implied by the Offer Price represent a discount of approximately 98.8% to the audited consolidated net asset value per Share attributable to the Shareholders of approximately HK\$0.8598 as at 31 December 2023, calculated based on the audited consolidated net asset value of the Company attributable to Shareholders of approximately RMB676,424,000 as at 31 December 2023 and 852,612,470 Shares in issue as at the Latest Practicable Date, and a RMB: HKD forex rate of 1:1.0837 as quoted by Hong Kong Association of Banks as at the Latest Practicable Date. As set out in the table above, the NAV per Share Price of the Partial Cash Offer Comparables ranged from a discount of approximately 80.97% to a premium of approximately 23.29% (the “**Comparable NAV per Share Price Range**”) with an average of a discount of approximately 35.38% (the “**Comparable Average NAV per Share Price**”) and a median of a discount of approximately 59.41% (the “**Comparable Median NAV per Share Price**”) of the offer price to the audited consolidated net asset value per Share attributable to the Shareholders. Given that the NAV per Share Price is not only discount the most than both the Comparable Average NAV per Share Price and the Comparable Median NAV per Share Price but also falls outside the Comparable NAV per Share Price Range, this indicates that the Offer Price is significantly discounted to the audited consolidated net asset value per Share attributable to the Shareholders when compared to the companies engaged in Partial Cash Offer Comparables. As such, we are of the view that the Offer Price is not fair and reasonable so far as the Qualifying Shareholders are concerned.

*(f) Conclusion*

In conclusion, we noted that:

- (i) the Offer Price represents a significant discount of approximately 99% to the closing prices on the Latest Practicable Date, the Last Trading Day, the Last Full Trading Date and last five, ten and thirty consecutive trading days up to and including the Last Full Trading Date as discussed in paragraphs headed “5(a) The Offer Price” in this letter;
- (ii) the Offer Price represents a significant discount of approximately 99% of the unaudited consolidated net asset value per Share attributable to the Shareholders of approximately HK\$0.89 as at 30 June 2024, as discussed in paragraphs headed “5(a) The Offer Price” in this letter;

- (iii) the Offer Price of HK\$0.01 to the Offer Shareholders is less favourable than the closing price of the Shares of HK\$1.37 as of Latest Practicable Date, which represented at a premium of approximately 39.2% of the NAV per Share, as discussed in paragraphs headed “5(b) Comparison of Offer Price against NAV per Share” in this letter;
- (iv) the Implied P/E Ratio and Implied P/B Ratio of approximately 0.13 times and 0.01 times, respectively, are significantly lower than the Comparables Companies, as discussed in the paragraphs headed “5(d) Comparison against comparable companies” in this letter; and
- (v) the LPD Price, LTD Price, Last Five Consecutive Trading Days Price and NAV per Share Price are discount of approximately 99.3%, 99.3%, 99.3% and 98.8%, respectively, are significantly lower than the Partial Cash Offer Comparables, as discussed in the paragraphs headed “5(e) Comparison against partial offer precedents” in this letter.

As such, we are of the view that the Offer Price is not fair and reasonable so far as the Qualifying Shareholders are concerned.

## **V. RECOMMENDATION**

Based on the foregoing, having considered the aforementioned principal factors and reasons for the Partial Offer, we noted that:

- (i) the Group recorded increasing profit attributable to owners of the Company for the two years ended 31 December 2022 and 2023, and the positive prospects of the Group, as discussed in the paragraphs headed “4(a) Business performance and prospects of the Group” in this letter;
- (ii) the Shares have been suspended for over 10 years since 14 February 2013, with no dividends distributed since the suspension.;
- (iii) despite the fact that the Offer Price represents a significant discount of approximately 99% compared to the closing price of the Shares before trading was suspended on 14 February 2013, the Partial Offer presents an opportunity for the Qualifying Shareholders who merely want to exit irrespective of the price, with the suspension of the trading in the Shares in place until the Company remedies the issues causing its trading suspension, as discussed in the paragraphs headed “4(b) The suspension of trading and the regulatory concerns of the SFC” in this letter;



- (iv) the Offer Price represents a significant discount of approximately 99% to the closing prices on the Latest Practicable Date, the Last Trading Day, the Last Full Trading Date and last five, ten and thirty consecutive trading days up to and including the Last Full Trading Date as discussed in paragraphs headed “5(a) The Offer Price” in this letter;
- (v) the Offer Price represents a significant discount of approximately 99% of the unaudited consolidated net asset value per Share attributable to the Shareholders of approximately HK\$0.89 as at 30 June 2024, as discussed in paragraphs headed “5(a) The Offer Price” in this letter;
- (vi) the Offer Price of HK\$0.01 to the Offer Shareholders is less favourable than the closing price of the Shares of HK\$1.37 as of Latest Practicable Date, which represented at a premium of approximately 39.2% of the NAV per Share, as discussed in paragraphs headed “5(b) Comparison of Offer Price against NAV per Share” in this letter;
- (vii) the Implied P/E Ratio and Implied P/B Ratio of approximately 0.13 times and 0.01 times, respectively, are significantly lower than the of the Comparables Companies, as discussed in the paragraphs headed “5(d) Comparison against comparable companies” in this letter;
- (viii) the LPD Price, LTD Price, Last Five Consecutive Trading Days Price and NAV per Share Price of discount of approximately 99.3%, 99.3%, 99.3% and 98.8%, respectively, are significantly lower than the Partial Cash Offer Comparables, as discussed in the paragraphs headed “5(e) Comparison against partial offer precedents” in this letter; and
- (ix) if the listing status of the Company is eventually cancelled by the Stock Exchange, the Qualifying Shareholders will be holding the Shares of an unlisted public/private company, where trading of the Shares will no longer be easily accessible and no information transparency as compared to the platform offered by the Stock Exchange.

While the Partial Offer provides an exit opportunity for Qualifying Shareholders, particularly given that the Shares have been suspended for over 10 years with no dividends distributed during this period, the significant discount for the Offer Price of approximately 99% to various valuation benchmarks – including the historical trading price, net asset value per Share, P/E Ratio, and P/B Ratio – renders the Offer Price unreasonable. The Offer Price of HK\$0.01 per Share represents a substantial discount to the closing price before suspension, and the unaudited consolidated net asset value per Share as at 30 June 2024. Additionally, the Implied P/E Ratio of 0.13 times and Implied P/B Ratio of 0.01 times are significantly lower than those of comparable companies, further demonstrating that the Offer Price does not reflect the Company’s financial position. The Offer Price is also less favorable when compared to the Partial Cash Offer Comparables, reinforcing our view that the Offer Price are unjustifiably low.

If the listing status of the Company is eventually canceled, the Qualifying Shareholders would face the additional risk of holding the Shares in an unlisted public or private company, where trading opportunities would be severely limited and transparency significantly reduced. However, even under this risk, accepting the Partial Offer at such an extreme discount does not adequately compensate shareholders for the true value of their investment or the potential prospects of the Group. By accepting the Partial Offer, the Shareholders would effectively forgo the opportunity to benefit from any future recovery or resolution of the trading suspension at a fair valuation.

Having considered the principal factors and reasons set out above, we are of the view that the Partial Offer is not fair and reasonable so far as the Qualifying Shareholders are concerned. Given the substantial undervaluation of the Offer Price relative to key financial and market benchmarks, we believe that accepting the Partial Offer would not be in the interests of the Qualifying Shareholders. As such, we are of the view that the Partial Offer is not fair and reasonable so far as the Qualifying Shareholders are concerned. On this basis, we do not recommend the Independent Board Committee to recommend, and we ourselves do not recommend, the Qualifying Shareholders to accept the Partial Offer.

Notwithstanding our recommendations, the Qualifying Shareholders are strongly advised that the decision to accept the Partial Offer or to dispose their investments in the Shares is subject to individual circumstances and investment objectives. As different Qualifying Shareholders would have different investment criteria, objectives, risk preferences and tolerance levels and/or circumstances, we would recommend any Qualifying Shareholder who may require advice in relation to any aspect of the Offer Document, or as to the action to be taken, to consult a licensed securities dealer, bank manager, solicitor, professional accountant, tax adviser or other professional adviser before making the decision to, whether or not, accept the Partial Offer.

We remind the Qualifying Shareholders that if the listing status of the Company is eventually cancelled by the Stock Exchange, they will be holding the Shares of an unlisted public/private company, where trading of the Shares will no longer be easily accessible and no information transparency as compared to the platform offered by the Stock Exchange.

The Qualifying Shareholders also should note that acceptance of the Partial Offer may result in their holding odd lots of Shares. Furthermore, the Qualifying Shareholders are also reminded to read carefully the procedures for accepting the Partial Offer as detailed in the Offer Document, the appendices to the Offer Document and the Form of Acceptance, if they wish to accept the Partial Offer.

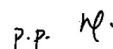
**The Qualifying Shareholders should be aware that the Partial Offer is subject to the satisfaction of the Conditions. Accordingly, the Partial Offer may or may not become unconditional. The Qualifying Shareholders should therefore exercise caution when dealing in the Shares.**

Yours faithfully,  
For and on behalf of



**Silverbricks Securities Company Limited**  
**Yau Tung Shing**  
*Director*

Yours faithfully,  
For and on behalf of



**VBG Capital Limited**  
**Sing Ruoh Chi**  
*Managing Director*

*Mr. Yau Tung Shing is a licensed person and responsible officer of Silverbricks Securities Company Limited registered with the SFC to carry on Type 6 (advising on corporate finance) regulated activity under the (under the licensing condition that in the capacity as an adviser to a client on matters/transactions falling within the ambit of the Takeovers Code, act together with another adviser) SFO and has over 8 years of experience in the corporate finance industry.*

*Ms. Sing Ruoh Chi is a licensed person and responsible officer of VBG Capital Limited registered with the SFC to carry on Type 6 (advising on corporate finance) regulated activity under the SFO with sole license on Takeovers Code related advisory work and has over 21 years of experience in corporate finance industry.*