

31 October 2024

To: *The Independent Board Committee and the Independent Shareholders of
Sun Kong Holdings Limited*

Dear Sirs/Madams,

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

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to the Independent Board Committee in relation to the Offer, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the Composite Document dated 31 October 2024 issued by the Company, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Composite Document unless the context requires otherwise.

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The Company was informed by the Vendor that on 4 September 2024 (after trading hours), the Offeror, the Vendor and Mr. Law entered into the Sale and Purchase Agreement, pursuant to which the Vendor had agreed to sell, and the Offeror had agreed to purchase, a total of 23,115,000 Sale Shares, free from Encumbrances, at an aggregate consideration of HK\$14,446,875, which is equivalent to HK\$0.625 per Sale Share. The Sale Shares represent approximately 57.79% of the total issued share capital of the Company as at the Latest Practicable Date.

Completion took place on 13 September 2024. The consideration of HK\$14,446,875 for the Sale Shares has been fully settled in cash by the Offeror to the Vendor on Completion on 13 September 2024, which was satisfied by the Offeror's own financial resources.

As at the Latest Practicable Date, the Company has 40,000,000 Shares in issue. Immediately prior to Completion, none of the Offeror or parties acting in concert with it were interested in any Shares or controlled any voting rights over Shares. Immediately following Completion and as at the Latest Practicable Date, the Offeror and the parties acting in concert with it held a total of 23,115,000 Shares, representing approximately 57.79% of the total issued share capital of the Company.

Accordingly, pursuant to Rule 26.1 of the Takeovers Code, the Offeror is required to make a mandatory unconditional cash offer for all the issued Shares (other than those already owned and/or agreed to be acquired by the Offeror and parties acting in concert with it).

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising Mr. Fenn David, Mr. Wong Ka Chun Matthew and Mr. Chan Ting Fung, being all the independent non-executive Directors, has been established by the Company pursuant to Rule 2.1 of the Takeovers Code to make a recommendation to the Independent Shareholders in respect of the Offer, as to whether the Offer is fair and reasonable and as to the acceptance of the Offer.

With the approval of the Independent Board Committee, we, Alpha Financial Group Limited, have been appointed by the Company to act as the Independent Financial Adviser to advise the Independent Board Committee in respect of the Offer and our opinion herein is solely for the assistance of the Independent Board Committee in connection with its consideration of the Offer pursuant to Rule 2.1 of the Takeovers Code, and in particular, as to whether the Offer is fair and reasonable and as to the acceptance of the Offer.

We are independent from and not connected with the Company, the Offeror, the Vendor, any of their respective substantial shareholders, or any party acting, or presumed to be acting, in concert with any of them. During the past two years immediately preceding the commencement of the Offer Period and up to the Latest Practicable Date, save for this appointment as the Independent Financial Adviser in respect of the Offer, Alpha Financial Group Limited has no significant connection, financial, business or otherwise with and there were no other engagements between Alpha Financial Group Limited and the Company, the Offeror, the Vendor, any of their respective substantial shareholders, or any party acting, or presumed to be acting, in concert with any of them. Apart from the normal advisory fee payable to us in connection with our appointment as the Independent Financial Adviser to advise the Independent Board Committee, no arrangement exists whereby we shall receive any other fees or benefits from the Offeror, the Vendor and the Company or any of their respective substantial shareholders or any person acting, or deemed to be acting, in concert with any of them. Accordingly, we are considered eligible to give independent advice on the Offer.

BASIS OF OUR ADVICE

In formulating our advice and recommendation to the Independent Board Committee, we have relied on the statements, information, opinions and representations contained in or referred to in the Composite Document and the information and representations as provided to us by the Directors and the management of the Company (the “**Management**”). Our review procedures include review of the annual reports of the Group for the years ended 31 March 2023 (the “**2023 Annual Report**”) and 31 March 2024 (the “**2024 Annual Report**”), the profit warning announcement of the Company dated 28 October 2024 (the “**Profit Warning Announcement**”), the unaudited consolidated management account of the Group for the four months ended 31 July 2024 which the Profit Estimate is based upon, the Composite Document, relevant announcements published by the Company, the industry trends of the Group’s principal business, the share price performance, the trading liquidity of the Company and comparable companies to the Company. We have assumed that all information and representations that have been provided by the Directors and the Management are true, complete and accurate in all material respects at the time when they were made and up to the date throughout the Offer Period and should there be any material changes thereto, Shareholders would be notified as soon as possible in accordance with Rule 9.1 of the Takeovers Code. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Composite Document were reasonably made after due enquiries and careful considerations.

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. The Independent Shareholders will be notified of any material changes to such information provided in the Composite Document and our opinion as soon as possible. We have also assumed that all statements of opinion made by the Directors and the Management in the Composite 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 Composite Document, including this letter, misleading.

While we have taken reasonable steps to satisfy the requirements under the Takeovers Code and the GEM 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 or the Offeror as set out in the Composite 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 Offer.

We have not considered the tax and regulatory implications on the Independent Shareholders of acceptance or non-acceptance of the Offer since these depend on their individual circumstances. In particular, the Independent 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 Independent Shareholders solely in connection with their consideration of the Offer, and except for its inclusion in the Composite 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.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation to the Independent Board Committee in relation to the Offer, we have considered the principal factors and reasons as set out below:

1. Background of the Offer

The Company was informed by the Vendor that on 4 September 2024 (after trading hours), the Offeror, the Vendor and Mr. Law entered into the Sale and Purchase Agreement, pursuant to which the Vendor had agreed to sell, and the Offeror had agreed to purchase, a total of 23,115,000 Sale Shares, free from Encumbrances, at an aggregate consideration of HK\$14,446,875, which is equivalent to HK\$0.625 per Sale Share. The Sale Shares represent approximately 57.79% of the total issued share capital of the Company as at the Latest Practicable Date.

The Acquisition was completed on 13 September 2024. The consideration of HK\$14,446,875 for the Sale Shares has been fully settled in cash by the Offeror to the Vendor on Completion on 13 September 2024, which was satisfied by the Offeror's own financial resources.

As at the Latest Practicable Date, the Company has 40,000,000 Shares in issue. Immediately prior to Completion, none of the Offeror or parties acting in concert with it were interested in any Shares or controlled any voting rights over Shares. Immediately following Completion and as at the Latest Practicable Date, the Offeror and the parties acting in concert with it held a total of 23,115,000 Shares, representing approximately 57.79% of the total issued share capital of the Company.

Accordingly, pursuant to Rule 26.1 of the Takeovers Code, the Offeror is required to make a mandatory unconditional cash offer for all the issued Shares (other than those already owned and/or agreed to be acquired by the Offeror and parties acting in concert with it).

2. Background information of the Group

(a) *Principal business*

The Company is a company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed on GEM of the Stock Exchange (Stock Code: 8631). The Group is principally engaged in the sale of diesel oil and related products in Hong Kong and the services of the Group include sourcing and transportation of diesel oil and related products in Hong Kong. Most of the Group's customers are logistic companies and construction companies which require diesel oil to operate their logistic fleets.

(b) Historical financial information

Set out below is a summary of the audited consolidated financial results of the Group for the two years ended 31 March 2023 and 2024 (“FY2023” and “FY2024”, respectively) as extracted from the 2023 Annual Report and the 2024 Annual Report:

Table 1: Historical financial information of the Group

	FY2023 <i>HK\$'000</i> (audited)	FY2024 <i>HK\$'000</i> (audited)
Revenue	67,722	69,032
– Sale of diesel oil	65,990	67,619
– Sale of diesel exhaust fluid	1,639	1,131
– Ancillary transportation service	93	282
Gross profit	3,273	5,454
Loss before tax	(12,066)	(10,662)
Loss and total comprehensive loss for the year	(12,066)	(10,662)
Gross profit margin	4.8%	7.9%
	As at 31 March 2023 <i>HK\$'000</i> (audited)	As at 31 March 2024 <i>HK\$'000</i> (audited)
Non-current assets	9,975	9,310
Current assets	48,257	40,925
Total assets	58,232	50,235
Non-current liabilities	–	–
Current liabilities	18,274	20,939
Total liabilities	18,274	20,939
Net current assets	29,983	19,986
Equity attributable to owners of the Company	39,958	29,296

FY2023 vs FY2024

The Group has recorded a revenue of approximately HK\$69.0 million for FY2024, representing an increase of approximately HK\$1.3 million or 1.9%, as compared to the Group's revenue of approximately HK\$67.7 million for FY2023. The increase was mainly due to increase in the sale of diesel oil as a result of the recovery after COVID-19 outbreak.

Revenue from the sale of diesel oil and diesel exhaust fluid accounted for approximately HK\$67.6 million and HK\$1.1 million respectively, representing approximately 98.0% and 1.6% respectively, of the Group's total revenue for FY2024. For FY2023, the revenue from the sale of diesel oil and diesel exhaust fluid accounted for approximately HK\$66.0 million and HK\$1.6 million respectively, representing approximately 97.5% and 2.4% respectively, of the Group's total revenue. Sale of diesel oil remained the largest contributor to the Group's revenue.

The sales quantity of diesel oil increased by approximately 30.0% from 9.0 million litres for FY2023 to 11.7 million litres for FY2024, which showed more diesel oil was required from the Group's logistics customers during FY2024. The increase in sales quantity of diesel oil is mainly attributable to the increased demand from a logistics customer which contributed approximately HK\$22.1 million (or approximately 32.1%) of revenue during FY2024. The sales quantity of diesel exhaust fluid decreased by approximately 28.1% from 502.1 thousand litres for FY2023 to 360.8 thousand litres for FY2024. The average selling price of the Group's diesel oil decreased by approximately 21.0% from HK\$7.33 per litre for FY2023 to HK\$5.79 per litre for FY2024 whereas the average selling price of the Group's diesel exhaust fluid decreased by approximately 4.0% from HK\$3.26 per litre for FY2023 to HK\$3.13 per litre for FY2024.

As a result, the Group recorded an increase in gross profit by approximately HK\$2.2 million or approximately 66.7%, from approximately HK\$3.3 million for FY2023 to approximately HK\$5.5 million for FY2024. The Group's gross profit margin increased from approximately 4.8% for FY2023 to approximately 7.9% for FY2024 due to (i) more diesel oil were sold to higher margin customers of construction; and (ii) reduction in wages for the diesel tank wagons drivers.

The Group's administrative and other operating expenses were approximately HK\$9.0 million and HK\$7.6 million for FY2023 and FY2024, respectively. As a result of the foregoing, the Group's net loss decreased by approximately HK\$1.4 million, from approximately HK\$12.1 million for FY2023 to approximately HK\$10.7 million for FY2024.

The Group finances its operations through cash generated from operating activities and banking facilities. The Group recorded net current assets of approximately HK\$20.0 million as at 31 March 2024, which was decreased from approximately HK\$30.0 million as at 31 March 2023.

As at 31 March 2024, the Group's current assets amounted to approximately HK\$40.9 million, which decreased from approximately HK\$48.3 million as at 31 March 2023. The decrease in current assets was due to the decrease in the net carrying amount of trade receivables of approximately HK\$8.0 million for the year ended 31 March 2024, which was mainly attributable to the increase in loss allowance for the trade receivables for the same period concerned.

As at 31 March 2024, the Group's current liabilities amounted to approximately HK\$20.9 million, which was increased from approximately HK\$18.3 million as at 31 March 2023. The Group's current ratio was approximately 2.0 as at 31 March 2024, which was decreased from approximately 2.6 as at 31 March 2023.

Profit Warning

As disclosed in the Profit Warning Announcement, based on a preliminary review of the unaudited consolidated management accounts of the Group for the four months ended 31 July 2024, the Group is expected to record (a) a decrease in revenue of approximately 83.3% as compared to that of the Group for the four months ended 31 July 2023, (b) a decrease in profit margin from approximately 7.7% for the four months ended 31 July 2023 to approximately 3.7% for the four months ended 31 July 2024 and (c) a loss and total comprehensive loss attributable to owners of the Company for the four months ended 31 July 2024, in comparison to a profit and total comprehensive income attributable to owners of the Company for the four months ended 31 July 2023. For further details, please refer to the Profit Warning Announcement and the section headed "4. MATERIAL CHANGES" in Appendix II to the Composite Document.

3. Background and intention of the Offeror

Background of the Offeror

As stated in the section headed "INFORMATION ON THE OFFEROR" in the Letter from Shenwan Hongyuan, the Offeror is an investment holding company incorporated in Hong Kong with limited liability and is directly and wholly owned by Yufengchang International. Yufengchang International, which is an investment holding company incorporated in the Cayman Islands, is in turn directly and wholly owned by Mr. Wang. As at the Latest Practicable Date, Mr. Wang is the sole director of the Offeror and Yufengchang International.

Mr. Wang, aged 34, has over 7 years of experience in fund and securities management. He is the executive director and supervisor of Xi'an Cai Bang Fund Management Company Limited* (西安財幫基金管理有限公司), a fund management company which the Offeror has minority interests in, and the general manager and executive director of Xi'an Lexiang Xingtou Film and Television Culture Company Limited* (西安樂享星途影視文化有限公司), a company which is principally engaged in video and short video production and operation services. Mr. Wang is a member of the 14th Fuping County Committee of the Chinese People's Political Consultative Conference and a special supervisor of the County Civil Affairs Bureau in September 2022. He was appointed as the vice chairman of the Fuping County New Social Stratification Association* (富平縣新的社會階層人士聯誼會) in December 2023.

Mr. Wang obtained a bachelor's degree in finance from The National Open University* (國家開放大學) in July 2019 and a college diploma in accounting and auditing from Shaanxi Police College* (陝西警察學院) in July 2011. Mr. Wang was certified as a financial market analyst in September 2023 by the Institute of Vocational Education Training Centre of the China Academy of Management Science* (中國管理科學研究院職業教育培訓中心).

Intention of the Offeror

As detailed in the section headed "INTENTIONS OF THE OFFEROR IN RELATION TO THE GROUP" in the Letter from Shenwan Hongyuan, Mr. Wang has ample experience in management in various businesses. Not only is he currently involved in the management of companies as referred to above, he has also previously acted as the chairman of the board of directors and general manager of Yijiayi Supply Chain (Shaanxi) Company Limited* (壹佳壹供應鏈(陝西)股份有限公司) between April 2021 and August 2023, a company that is principally engaged in materials logistics and storage services and in which Mr. Wang remains as the controlling shareholder as at the Latest Practicable Date. Leveraging Mr. Wang's experience in business and securities management as well as management of logistics-focused company, we understand that Mr. Wang and the Offeror are optimistic in the future development of the diesel oil sales and logistics business of the Group and believe that it is in their commercial interests to invest in the Company.

Also as stated in the section headed “INTENTIONS OF THE OFFEROR IN RELATION TO THE GROUP” in the Letter from Shenwan Hongyuan, the Offeror considers and confirms that (i) it is intended that the Group will continue with the existing business of the Group; and (ii) it does not have the intention to (a) introduce any major changes to the existing business of the Group or (b) discontinue the employment of any of the Group’s employees or (c) redeploy the fixed assets of the Group other than in its ordinary course of business. Furthermore, the Offeror has no plans to downsize or change the scale of the Company’s existing business. Nonetheless, the Offeror reserves the right to make any changes that it deems necessary or appropriate to the Group’s business and operations to optimise the value of the Group, including reassessing, adjusting and/or expanding the scale of the Company’s existing business and considering whether to explore further opportunities as part of and/or in synergy with the existing business of the Group in due course.

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

Proposed change of the Board composition

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

According to the Letter from Shenwan Hongyuan, the Offeror intends to change the composition of the board of directors of the Company and nominate new directors to the board of directors of the Company no earlier than the earliest time permitted under the Takeovers Code, the GEM Listing Rules or other applicable rules or regulations. In addition to the intention of appointing Mr. Wang, who has previous experience in managing logistics business as a director after the close of the Offer, the Offeror also intends to appoint, among others, director which has experience in managing diesel oil related business after the close of the Offer as well as director of opposite gender in compliance with Rule 17.104 of the GEM Listing Rules. Nonetheless, taking into account Mr. Law’s extensive experience in the principal business of the Group and the financial and managerial support provided by Mr. Law to the business and financial position of the Group, and with a view to ensure smooth transition and operation of the Group in the foreseeable future, the Offeror intends to retain Mr. Law as an executive Director and a key personnel for the operation of the existing business of the Group after the close of the Offer, and has no intention to reconsider his position as an executive Director prior to the next annual general meeting of the Company. Any changes to the board of directors of the Company will be made in compliance with the Takeovers Code and the GEM Listing Rules and further announcement will be made as and when appropriate.

Nevertheless, we consider that the operations of the business of the Group may be affected during the transitional period despite the extensive experience and network of Mr. Wang as the new Board would need time to review and understand the original business before developing a sustainable business plan or strategy for the Group and the employees would also have to adapt to the leadership and management of the new Board (the “**Transitional Period**”). We are of the view that, the effect during the Transitional Period, which may or may not happen, is not expected to be material to the business of the Group as Mr. Law will remain as key personnel for the operation of the existing business of the Group after the close of the Offer. Despite that, Shareholders are still subject to the risk of Share price fluctuation given that the Share price is associated with the business performance and strategy of the Group, as well as the background and experience of the potential new Directors.

4. Future prospects and outlook of the Group

The Group is principally engaged in the sale of diesel oil and related products in Hong Kong and the services of the Group include sourcing and transportation of diesel oil and related products in Hong Kong.

As disclosed in the 2024 Annual Report, Hong Kong and People’s Republic of China economy development are critical to the Group’s business and operating environment. According to the Management, the Group will continue to closely monitor the diesel market demand, pay close attention to its cash flow management, integrate existing resources and actively adjust business plans to ensure stability of its operations amid such difficult times while being fully prepared for business recovery.

Citing from the Hong Kong Energy Statistics Annual Report 2023 published by the Census and Statistics Department of the Hong Kong Government in April 2024, the sales for local consumption of gas oil, diesel oil and naphtha in Hong Kong amounted to 2.5 million kilolitres in 2023, which was an increase from 2.0 million kilolitres in 2022. The same figure for the first quarter of 2024, which was published in the latest Hong Kong Energy Statistics Quarterly Report in June 2024, amounted to 623.3 thousand kilolitres, which was also an increase from 575.3 thousand kilolitres and 576.1 thousand kilolitres for the same periods concerned in 2022 and 2023, respectively. While we understand that the Group is principally engaged in the sale of diesel oil and related products in Hong Kong, the Census and Statistics Department does not collect bespoke data on local consumption of diesel oil. Rather, it collects information on the total combined consumption figure of gas oil, diesel oil and naphtha. Nevertheless, the above information is the most relevant information made available by the Census of Statistics Department, which we also believe is one of the most credible sources of data available in relation to the local consumption of diesel oil. Accordingly, we are of the view that the above information provides a general reference of the local consumption of relevant oil products in Hong Kong to the Independent Shareholders.

According to the Hong Kong's Recent Economic Situation and Near-term Outlook by the Office of the Government Economist to the Legislative Council Members of Hong Kong in May 2024 (“**Hong Kong Economic Outlook 2024**”), the Hong Kong economy recorded moderate growth in the first quarter of this year. Meanwhile, private consumption and overall investment expenditures expanded mildly. Hong Kong's Gross Domestic Product (“**GDP**”) grew by 2.7% year-on-year, compared with the 4.3% increase in the preceding quarter. According to the same report, on a seasonally adjusted quarter-to-quarter comparison, the GDP increased by 2.3%, after a 0.2% increase in the preceding quarter.

Also taking into account that (i) the Group has been making losses for FY2023 and FY2024 as discussed in the paragraphs headed “2. Background information of the Group” in this letter; (ii) the Group has suffered a decline in revenue and continued to incur a loss during the four months ended 31 July 2024 according to the Profit Warning Announcement and the Profit Estimate; and (iii) the mild private consumption expenditures in 2024 as cited from the Hong Kong Economic Outlook 2024, which also forecasted a longer period of tight financial conditions that may affect economic confidence and activities in Hong Kong alongside with uncertainties brought by geopolitical tensions, we consider that the Group's outlook and prospects remain uncertain.

5. Principal terms of the Offer

As stated in the Letter from Shenwan Hongyuan, Shenwan Hongyuan, for and on behalf of the Offeror and pursuant to the Takeovers Code, is making the Offer on the following basis:

For each Offer Share HK\$0.625 in cash

As disclosed in the Letter from Shenwan Hongyuan, the Offer Price of HK\$0.625 per Offer Share is equal to the purchase price per Sale Share paid by the Offeror under the Sale and Purchase Agreement.

As at the Latest Practicable Date, the Company has 40,000,000 Shares in issue and the Company does not have any outstanding options, warrants, securities or derivatives which are convertible or exchangeable into Shares. On the basis of the Offer Price of HK\$0.625 per Offer Share, the entire issued share capital of the Company would be valued at approximately HK\$25,000,000.

Assuming that there is no change in the issued share capital of the Company from the Latest Practicable Date and up to the close of the Offer, and excluding (i) the 1,996,000 Remaining Shares subject to the Irrevocable Undertaking and (ii) the 23,115,000 Shares held by the Offeror and parties acting in concert with it immediately upon Completion and as at the Latest Practicable Date, 14,889,000 Shares will be subject to the Offer. If the Offer is accepted in full, the maximum consideration payable by the Offeror for the Offer is valued at approximately HK\$9,305,625.

For further details of the terms of the Offer, please refer to the “Letter from Shenwan Hongyuan” contained in the Composite Document.

5.1 The Offer Price

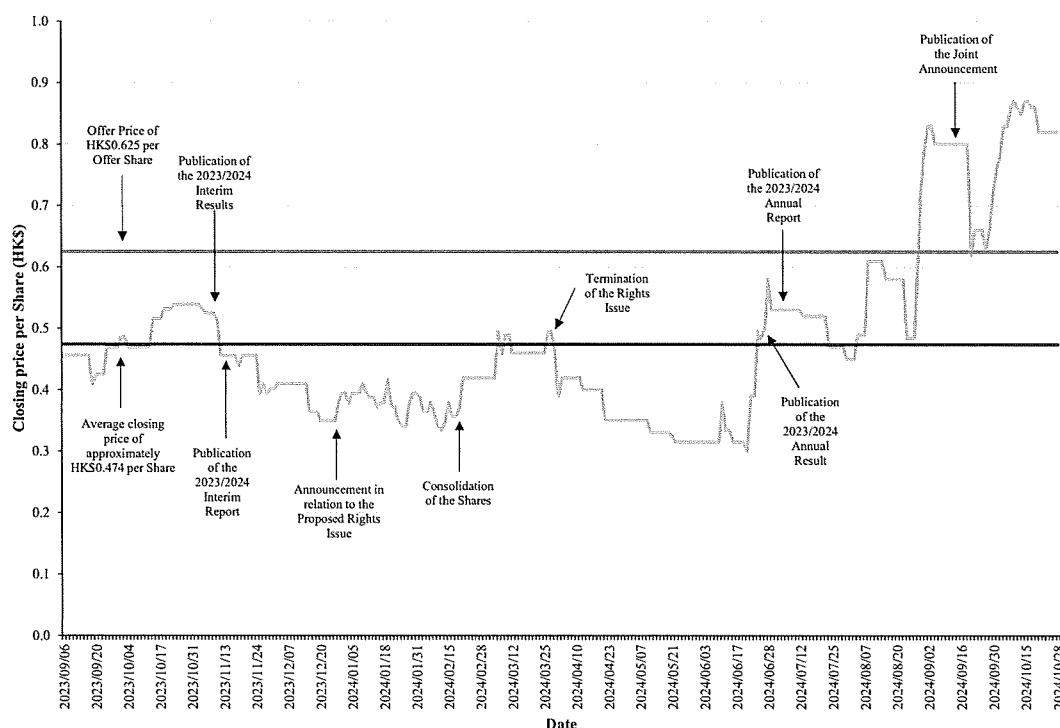
The Offer Price of HK\$0.625 per Offer Share represents:

- (i) a discount of approximately 23.78% to the closing price of HK\$0.82 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) a discount of approximately 21.88% to the closing price of HK\$0.8 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (iii) a discount of approximately 21.48% to the average closing price of approximately HK\$0.796 per Share based on the daily closing prices as quoted on the Stock Exchange for the five (5) consecutive trading days up to and including the Last Trading Day;
- (iv) a discount of approximately 5.45% to the average closing price of approximately HK\$0.661 per Share based on the daily closing prices as quoted on the Stock Exchange for the ten (10) consecutive trading days up to and including the Last Trading Day;
- (v) a premium of approximately 8.70% over the average closing price of approximately HK\$0.575 per Share as quoted on the Stock Exchange for the thirty (30) consecutive trading days up to and including the Last Trading Day;
- (vi) a premium of approximately 20.19% to the average closing price of approximately HK\$0.520 per Share as quoted on the Stock Exchange for the last sixty (60) consecutive trading days up to and including the Last Trading Day; and
- (vii) a discount of approximately 14.66% to the audited consolidated net assets attributable to owners of the Company per Share of approximately HK\$0.732 as at 31 March 2024, which was calculated based on the Group’s latest published audited consolidated net assets attributable to owners of the Company of approximately HK\$29,296,000 as at 31 March 2024 and a total 40,000,000 Shares in issue as at the Latest Practicable Date.

5.2 Historical performance of the Shares

We have reviewed the movements in the closing price of the Shares for the Review Period. We consider that the length of the Review Period to be reasonably long enough to illustrate the relationship between the historical trend of the closing price of the Shares and the Offer Price and is also a common approach when assessing historical performance of Shares in a general offer. Set out below is the chart showing the daily closing price of the Shares as quoted on the Stock Exchange during the period commencing from 6 September 2023, being the twelve-month period prior to the Last Trading Day and up to the Latest Practicable Date (the “Review Period”):

Daily closing price of the Shares on GEM



Source: the website of the Stock Exchange (www.hkex.com.hk)

Note: Trading of the Shares has been suspended from 5 to 16 September 2024 pending the release of the Announcement.

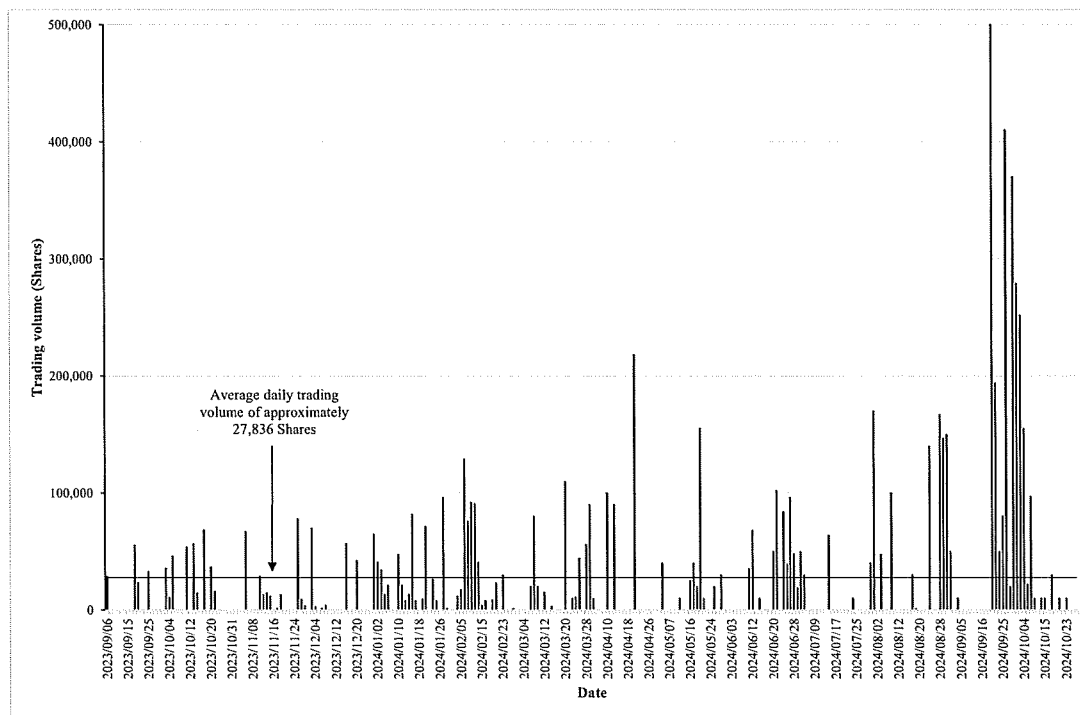
We noted from the above charts that, during the Review Period, the Shares closed on the Stock Exchange within the range of the lowest of HK\$0.3 per Share on 20 June 2024 to the highest of HK\$0.87 per Share on 9 October 2024, 15 October 2024 and 16 October 2024. The Offer Price is significantly higher than the average closing price of approximately HK\$0.474 per Share during the Review Period, which represents a premium of approximately 31.8% over the average closing price per Share during the Review Period. We noted that the closing price of the Shares was only above the Offer Price for 31 trading days (namely the period from 29 August 2024 to 4 September 2024, 17 September 2024, 19 September 2024 and the period from 23 September 2024 to the Latest Practicable Date) out of 273 trading days during the Review Period.

We observed that the closing price of the Shares fluctuated between HK\$0.33 to HK\$0.539 from the start of the Review Period until around mid-May 2024. Around the publication of the annual results for the year ended 31 March 2024 in around late June 2024, the closing price of the Shares increased and reached the highest of HK\$0.58 per Share on 28 June 2024, and the closing price of the Shares stabilised, in general, between HK\$0.45 to HK\$0.61 per Share since then until late August 2024. We noted that on around 29 August 2024, there has been a rise in the daily closing price of the Shares. As confirmed by the Directors regarding the rise in closing price of the Shares on the aforementioned period, we were advised that they are not aware of any particular reason. Subsequently, the closing price of the Shares closed at HK\$0.82 per Share as at the Latest Practicable Date.

5.3 Historical trading volume of the Shares

Set out below is the chart showing the daily trading volumes of the Shares on the Stock Exchange during the Review Period:

Daily trading volume of the Shares on GEM



Source: the website of the Stock Exchange (www.hkex.com.hk)

Note: Trading of the Shares has been suspended from 5 to 16 September 2024 pending the release of the Announcement.

Trading volume of the Shares during the Review Period

The daily trading volume of the Shares on GEM has been thin during the Review Period, given that it had been below 100,000 Shares (which is 10 board lots based on 10,000 Shares per board lot as at the Latest Practicable Date) for the majority of the Review Period. The issued shares of the Company of 40,000,000 Shares remained the same during the Review Period and up to the Latest Practicable Date. Excluding the 25,111,000 Shares which represent approximately 62.78% of the issued share capital of the Company held by the Vendor immediately before Completion, the Company has a public float of 14,889,000 Shares, which represent approximately 37.22% of the issued share capital of the Company.

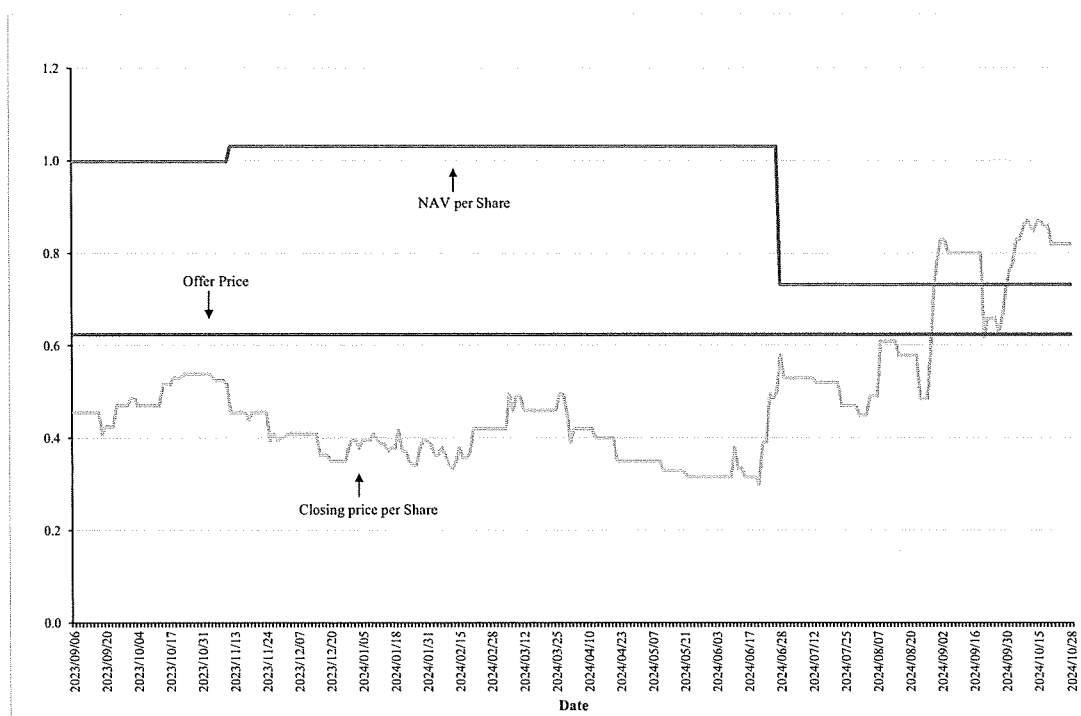
The average daily trading volume of the Shares on the Stock Exchange amounted to approximately 27,836 Shares during the Review Period, representing approximately 0.07% of the Company's issued share capital and approximately 0.19% of the public float as at the Latest Practicable Date. There are only 6 trading days which recorded trading volume of more than 0.5% of the issued share capital of the Company during the Review Period. We noted that most of the trading days which recorded trading volume of more than 0.5% of the issued share capital of the Company during the Review Period were on the days after the publication of the Announcement, where a surge in trading volume was recorded. As confirmed by the Directors regarding the spike in trading volume for the aforementioned periods, we were advised that, save for the publication of the Announcement, they are not aware of other particular reason that possibly led to the spike in daily trading volume of the Shares. It indicates that the liquidity of the Shares had been inactive during the Review Period not to mention that there has been more than 146 out of 273 trading days during the Review Period which recorded zero trading volume.

Given the thin historical daily trading volume of the Shares during the Review Period, it is uncertain as to 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 Share price on the market. As such, we are of the view that the prevailing market price of the Shares may not necessarily reflect the actual proceeds that the Independent Shareholders (especially those with more sizeable holdings) may receive if they elect to dispose of their Shares on the open market. Therefore, we are of the view that the Offer represents an opportunity for the Independent Shareholders, particularly for those who hold a large volume of the Shares, to dispose of part or all of their Shares at the Offer Price if they so wish to. The Independent Shareholders who wish to realise their investments in the Group are reminded that they should carefully and closely monitor the market price of the Shares during the Offer Period.

5.4 Historical discounts to net asset value per Share

The Offer Price represents a discount of approximately 14.66% to the audited consolidated net asset value attributable to owners of the Company per Share (“NAV”) of approximately HK\$0.732 as at 31 March 2024. The chart below illustrates the historical closing prices of the Shares as quoted on the Stock Exchange during the Review Period, and up to the Latest Practicable Date against the Offer Price and latest available NAV of the Company at the relevant time.

NAV per Share



Source: the website of the Stock Exchange (www.hkex.com.hk)

Note: The NAV per Share was calculated based on the net assets as set out in the respective interim or annual results of the Company divided by the total number of Shares then in issue. The NAV per Share was approximately HK\$0.999 for the period from 9 September 2023 to 9 November 2023, approximately HK\$1.032 for the period from 10 November 2023 to 27 June 2024 and approximately HK\$0.732 for the period from 28 June 2024 to the Latest Practicable Date, respectively.

As shown in the chart above, the Shares has been trading at a substantial discount to the NAV per Share for most of the time during the Review Period. The Shares has been trading at an average discount of approximately 46.8% to the NAV over the Review Period, which is substantially higher than the discount of approximately 14.66% that the Offer Price represents. In addition, the Shares has been trading at a discount to the NAV of more than the discount the Offer Price represents for 242 out of 273 trading days during the Review Period. On this basis, we are of the view that the Offer Price is fair and reasonable from the perspective of the NAV per share so far as the Independent Shareholders are concerned.

5.5 Comparative Analysis

In order to further assess the fairness and reasonableness of the Offer Price, we have considered the price-to-book ratio (the “**P/B Ratio**”), the price-to-earnings ratio (the “**P/E Ratio**”) and dividend yield which are commonly adopted trading multiple analyses. Given that the Group was loss-making for the years ended 31 March 2022, 2023 and 2024 and no dividend was distributed for the years ended 31 March 2022, 2023 and 2024, we were unable to analyse with reference to P/E Ratio and dividend yield. Accordingly, we consider the P/B Ratio to be an appropriate indicator of the fair values of the comparable companies.

Based on the Offer Price of HK\$0.625 per Offer Share and the total number of issued Shares of 40,000,000 as at the Latest Practicable Date, the Company is valued at approximately HK\$25.0 million. The P/B Ratio of the Company implied by the Offer Price is approximately 0.9 times (the “**Implied P/B Ratio**”) based on the audited consolidated net asset value of the Company of approximately HK\$29.3 million as at 31 March 2024.

For the purpose of comparison, we have identified an exhaustive list of 2 other listed companies on the Stock Exchange based on the criteria that substantially all (more than 90%) of the revenue for the latest full financial year was generated from the provision of sale of diesel oil or other similar petroleum fuel products (such as gasoline) in Hong Kong, which is similar to that of the Company (the “**Peer Comparable(s)**”). Since the theoretical market capitalisation of the Company was only approximately HK\$25.0 million with reference to the Offer Price, we would limit the selection for comparison with small-cap listed companies of market capitalisation of less than HK\$200 million in search for boarder comparables.

Although the number of the Peer Comparables were limited, we are of the view that the valuation of the peer listed companies is comparable to that of the Company because the Peer Comparables also engage in the sale of petroleum fuel products in Hong Kong, and we consider that the Peer Comparables represent the companies operating in the same business segment and in the same geographical location to that of the Company. Based on the above, having considered the exhaustive list of Peer Comparables having met the selection criteria, we are of the view that the Peer Comparables are representative samples and it is fair and reasonable for the Peer Comparables to represent companies similar to that of the Company for comparison purpose and thus provide a meaningful reference of the valuation based on market trading prices of companies for the Independent Shareholders to take reference of.

The table below illustrates the market capitalisation and net asset value of the Peer Comparables as well as the calculated P/B Ratio:

Company name (Stock code)	Principal activities	Market capitalisation as at the Last Trading Day	Net asset value (Note 1)	P/B ratio
F8 Enterprises (Holdings) Group Limited (8347)	Principally engages in the sale and transportation of diesel oil and related products and other products in Hong Kong	HK\$8.7 million	HK\$91.7 million	0.1 times
Vico International Holdings Limited (1621)	Principally engages in the distribution of third party branded petrochemicals, the sales of the self-branded lubricant oil and provides fleet card services in Hong Kong (Note 3)	HK\$65.0 million	HK\$137.0 million	0.5 times
The Company (The Offer)	Principally engages in the sale of diesel oil and related products in Hong Kong	HK\$25.0 million (Note 2)	HK\$29.3 million	0.9 times

Source: the website of the Stock Exchange (www.hkex.com.hk) and the financial reports of the respective Peer Comparables

Notes:

1. The P/B Ratios of the Comparables are calculated based on the market capitalisation of the respective Comparables as at the Last Trading Day divided by the net assets value of the respective Comparables as extracted from their respective latest published interim or annual results as at the Last Trading Day.
2. The Implied P/B Ratio is calculated based on the theoretical market capitalisation of the Company with reference to the Offer Price.
3. According to the annual report of Vico International Holdings Limited (1621), the sales of diesel products, which mainly include automotive diesel and industrial diesel, amounted to approximately 94.8% of its total revenue for the year ended 31 March 2024.

As illustrated in the table above, the Implied P/B Ratio of the Company calculated based on the theoretical market capitalisation of the Company with reference to the Offer Price is approximately 0.9 times, which is higher than that of F8 Enterprises (Holdings) Group Limited (8347) of approximately 0.1 times and Vico International Holdings Limited (1621) of approximately 0.5 times. Accordingly, this indicates the implied valuation of the Company based on the Offer Price is higher than the valuations of the Peer Comparables based on their respective closing share prices from the perspective of P/B Ratio. On this basis, for the Independent Shareholders' reference, we are of the view that the Offer Price is fair and reasonable from a price-to-book valuation standpoint.

5.6 General offer precedents

We are of the view that past general offer transactions of companies listed on the Stock Exchange may not be a good reference for assessing the fairness and reasonableness of the Offer Price considering these companies are from different industries, which therefore have different market fundamentals and prospects. Accordingly, we consider the analysis in the sections above to be more relevant for the Independent Shareholders.

5.7 Conclusion

Despite the Offer Price represents (a) discount to the closing price as quoted on the Stock Exchange on the Last Trading Day; (b) discounts to the average closing price as quoted on the Stock Exchange for the five (5) and ten (10) consecutive trading days immediately prior to and including the Last Trading Day; and (c) discount to the NAV per Share as at 31 March 2024 of approximately 14.66%, we noted that:

- (i) the Offer Price represents premiums over the average closing price as quoted on the Stock Exchange for the thirty (30) and sixty (60) consecutive trading days immediately prior to and including the Last Trading Day;
- (ii) the P/B Ratio of the Company implied by the Offer Price of approximately 0.9 times is significantly higher than the P/B ratios of the Peer Comparables;
- (iii) the Offer Price represents premium of approximately 31.8% over the average closing price per Share during the Review Period; and
- (iv) the Offer Price represents an average discount of approximately 46.8% to the NAV per Share which the Shares have been trading at over the Review Period.

Considering (A) there is a premium of the Offer Price over the average closing price quoted on the Stock Exchange for the thirty (30) and sixty (60) consecutive trading days, which represents a longer period of trading days considered which is more representable for comparison purpose as it is less prone to the recent volatility of the Shares as compared to the discount to the closing price as quoted on the Stock Exchange on the Last Trading Day and discounts to the average closing price as quoted on the Stock Exchange for the five (5) and ten (10) consecutive trading days immediately prior to and including the Last Trading Day, which is a shorter period of trading days considered and is more prone to the recent volatility of the Shares; and (B) the Offer Price represents a significantly smaller discount to the NAV per Share than the average discount to the NAV per Share which the Shares have been trading at over the Review Period, on balance, we are of the view that the Offer Price is fair and reasonable so far as the Independent Shareholders are concerned.

6 Public float and maintaining the listing status of the Company

The Stock Exchange has stated that if, upon close of the Offer, less than the minimum prescribed percentage applicable to the Company, being 25% of the issued Shares, are held by the public, or if the Stock Exchange believes that

- (i) a false market exists or may exist in the trading of the Shares; or
- (ii) that there are insufficient Shares in public hands to maintain an orderly market,

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

As disclosed in the Letter from Shenwan Hongyuan, the Offeror intends the Company to remain listed on GEM after the close of the Offer. The sole director of the Offeror, the Directors and the new directors to be appointed to the Board of the Company, if any, will jointly and severally undertake to the Stock Exchange to take appropriate steps to ensure that sufficient public float exists in the Shares. No such arrangements have been confirmed or put in place as at the Latest Practicable Date as disclosed in the Letter from Shenwan Hongyuan.

RECOMMENDATION

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

- (i) notwithstanding the Offer Price represents a discount of approximately 21.88% to the closing price as quoted on the Stock Exchange on the Last Trading Day and a discount of approximately 14.66% to the audited consolidated net assets attributable to owners of the Company per Share of approximately HK\$0.732 as at 31 March 2024, the Offer Price represents premium of approximately 31.8% over the average closing price per Share during the Review Period, as discussed in paragraphs headed “5.7 Conclusion” in this letter;
- (ii) the discount of approximately 14.66% to the audited consolidated net assets attributable to owners of the Company per Share is significantly smaller as compared to the average discount of approximately 46.8% to the NAV per Share which the Shares have been trading at over the Review Period;
- (iii) the P/B Ratio of the Company implied by the Offer Price of approximately 0.9 times is significantly higher than the P/B Ratios of the Comparable Companies;

- (iv) save for only 6 out of 273 trading days during the Review Period which recorded trading volume of more than 0.5% of the issued share capital of the Company, the trading volume of Shares was thin during the Review Period, which implies uncertainty as to whether there would be sufficient liquidity in the Shares for the Independent Shareholders to dispose of a large volume of the Shares in the open market without depressing the Share price, as discussed in the paragraphs headed “5.3 Historical Trading Volume of the Shares” in this letter;
- (v) save for only 31 out of 273 trading days during the Review Period, the Offer Price is higher than the closing price of the Shares throughout most of the Review Period; and
- (vi) the Group has been making losses for FY2023 and FY2024 and continued to suffer from a decline in revenue and incurred a loss during the four months ended 31 July 2024 according to the Profit Warning Announcement and the Profit Estimate, as discussed in the paragraphs headed “2. Background information of the Group” in this letter.

Considering that the Offer Price is higher than, represents a premium and/or a lesser discount to the NAV as illustrated in the above (i), (ii), (iii) and (v); and that the Offer represents an opportunity for the Independent Shareholders to dispose of their Shares with the uncertainties as illustrated in the above (iv) and (vi), on balance, we are of the view that the Offer are fair and reasonable so far as the Independent Shareholders are concerned. However, in view of the recent volatility of the closing prices of the Shares, those Independent Shareholders who intend to accept the Offer are reminded that they should closely monitor the market price of Shares during the Offer Period and should consider selling their Shares in the open market, rather than accepting the Offer, if the net proceeds from the sale of such Shares in the open market would exceed the net proceeds receivable under the Offer. On this basis, we recommend the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to accept the Offer if the amount they can receive under the Offer is higher than the net proceeds from the sale of such Shares in the open market.


In addition, we would like to remind the Independent Shareholders that they should bear in mind the potential difficulties they may encounter in disposing of the Shares after the close of the Offer in view of the historical low trading liquidity of the Shares and there is no guarantee that the prevailing level of the Share price will sustain during and after the Offer Period. The Independent Shareholders are strongly advised that the decision to realise or to continue to hold the Shares is subject to individual circumstances and investment objectives of the Independent Shareholders. In any event, the Independent Shareholders should note that there is no certainty that the current trading volume and/or current trading price level of the Shares will be sustainable during or after the Offer Period.

The Independent Shareholders are also reminded to read carefully the procedures for acceptance of the Offer, details of which are set out in Appendix I to the Composite Document and the accompanying Form of Acceptance, if they wish to accept the Offer.

Yours faithfully,
For and on behalf of
Alpha Financial Group Limited


Cheng Chi Ming, Andrew
Managing Director

Yours faithfully,
For and on behalf of
Alpha Financial Group Limited


Irene Ho
Vice President

Mr. Cheng Chi Ming, Andrew is the Managing Director of Alpha Financial Group Limited and is licensed under the SFO as a Responsible Officer to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities. Mr. Cheng has over 21 years of experience in the corporate finance industry in Hong Kong.

Ms. Irene Ho is the Vice President of Alpha Financial Group Limited and is licensed under the SFO as a Responsible Officer to conduct Type 6 (advising on corporate finance) regulated activities. Ms. Ho has over 10 years of experience in the corporate finance industry in Hong Kong.