MERDEKA CORPORATE FINANCE LIMITED
领智企业融资有限公司
Room 1108, 11/F., Wing On Centre, 111 Connaught Road Central, Hong Kong
香港干诺道中 111 号永安中心 11 楼 1108 室
Tel 电话: (852) 2115 7600 Fax 传真: (852) 2115 7698

9 April 2025

To: The Independent Board Committee and the Independent Shareholders of China Wacan Group Company Limited

Dear Sirs or Madams,

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

INTRODUCTION

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 "**Board Letter**") contained in the composite document dated 9 April 2025 (the "**Composite Document**") jointly issued by the Offeror and China Wacan Group Company Limited (the "**Company**"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in this Composite Document unless the context requires otherwise.

As set out in the Board Letter, on 15 January 2025 (after trading hours), the Vendor, the Guarantor and the Offeror entered into the Sale and Purchase Agreement, pursuant to which the Vendor agreed to sell and the Offeror agreed to purchase the Sale Shares, being 195,000,000 Shares, representing 62.5% of the total issued share capital of the Company as at the Latest Practicable Date, for a total cash consideration of HK$50,000,000 (representing approximately HK$0.2564 per Sale Share), which was settled in full by the Offeror by drawing down the Sale Shares Facility granted to it by Ultra Accord.

As at the Latest Practicable Date, the Offeror and parties acting in concert with it own 195,000,000 Shares, representing 62.5% of the total issued share capital of the Company. Pursuant to Rule 26.1 of the Takeovers Code, the Offeror is therefore required to make a mandatory unconditional cash offer for all the issued Shares (other than those Shares already owned or agreed to be acquired by the Offeror and parties acting in concert with it).

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

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising all the independent non-executive Directors, namely Ms. Ding Xin, Mr. Zhu Qi and Ms. Zhang Lingke, has been established in accordance with Rule 2.1 of the Takeovers Code to advise and give a recommendation to the Independent Shareholders as to whether the Offer is fair and reasonable and as to the acceptance of the Offer. In our capacity as the Independent Financial Adviser, our role is to give an independent opinion to the Independent Board Committee as to whether the Offer is fair and reasonable and as to acceptance so far as the Independent Shareholders are concerned and such appointment has been approved by the Independent Board Committee.

OUR INDEPENDENCE

We, Merdeka, have been appointed by the Company as the Independent Financial Adviser to advise the Independent Board Committee in this respect 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. The appointment of Merdeka as the Independent Financial Adviser has been approved by the Independent Board Committee. Our role as the Independent Financial Adviser is to give our recommendation to the Independent Board Committee and the Independent Shareholders as to (i) whether the Offer is fair and reasonable so far as the Independent Shareholders are concerned; and (ii) whether the Offer should be accepted.

We are independent of and not connected with the Company, the Offeror, the Vendor, the Guarantor, 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 and up to the date of the Rule 3.5 announcement, save for this appointment as the Independent Financial Adviser in respect of the Offer, there were no other engagements between Merdeka and (i) the Group (ii) the Vendor and its ultimate beneficial owners or (iii) the Offeror and its ultimate beneficial owner or (iv) any parties 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 and the Independent Shareholders, no arrangement exists whereby we shall receive any other fees or benefits from the Offeror 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 this 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, among others, review of the annual results announcement of the Group for the year ended 31 December 2024 (the "**2024 Annual Results Announcement**") and annual report of the Group for the year ended 31 December 2023 (the "**2023 Annual Report**") and the interim report of the Group for the six months ended 30 June 2024 (the "**2024 Interim Report**"), this Composite Document, relevant announcements published by the Company, the industry trends of the Group's principal business, the historical Share price performance and 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 this 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 this Composite Document and our opinion as soon as possible in accordance with Rule 9.1 of the Takeovers Code. We have also assumed that all statements of opinion made by the Directors and the Management in this Composite Document were reasonably made after due enquiries and careful consideration.

The Directors have confirmed that, to the best of their information and knowledge, they believe 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 this Composite Document, including this letter, misleading.

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 or the Offeror as set out in this 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 this 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 and the Independent Shareholders in relation to the Offer, we have considered the principal factors and reasons as set out below:

1. Background information on the Group

1.1 Principal business

The Company was incorporated in the Cayman Islands with limited liability and its issued Shares have been listed on the Main Board since 16 August 2019. The Group is currently engaged in (i) the provision of wet trades works and wet trades-related ancillary works in Hong Kong for both public and private sectors (principally in domestic segment) (the "**Construction Services**"); (ii) the provision of construction information technology services in Hong Kong (the "**Construction IT Services**"); and (iii) the beauty services and health services in the PRC (the "**Beauty & Healthcare Business**"). As advised by the Management, the Beauty & Healthcare Business are still in the preliminary stage, and no revenue has been recorded for FY2024 as noted from the 2024 Annual Results Announcement.

1.2 Historical financial information

Set out below is a summary of the consolidated results of the Group for (i) the six months ended 30 June 2024 ("**HY2024**") and 30 June 2023 ("**HY2023**") as extracted from the 2024 Interim Report; and (ii) three financial years ended 31 December 2022 ("**FY2022**"), 31 December 2023 ("**FY2023**") and 31 December 2024 ("**FY2024**") as extracted from the 2023 Annual Report and 2024 Annual Results Announcement, respectively.

	For the six months ended 30 June		For the years ended 31 December		
	2024	**2023**	**2024**	**2023**	**2022**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Unaudited	Unaudited	Audited	Audited	Audited
Revenue	38,368	41,235	109,950	86,702	122,517
– Construction Services	38,368	40,869	109,584	86,336	121,720
– Construction IT Services	–	366	366	366	797
Gross loss	(13,699)	(14,938)	(12,883)	(21,489)	(28,628)
Loss and total comprehensive expense for the year/period	(25,467)	(22,960)	(43,338)	(51,618)	(56,203)

	As at 30 June		As at 31 December		
	2024	2023	2024	2023	2022
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Unaudited	Unaudited	Audited	Audited	Audited
Total assets	47,083	102,497	42,260	71,757	123,936
Total liabilities	19,382	72,386	32,430	18,589	19,150
Net assets	27,701	81,826	9,830	53,168	104,786

For the six months ended 30 June 2024 and 2023

The Group's revenue decreased by approximately HK$2.9 million or approximately 7.0% from approximately HK$41.2 million for HY2023 to approximately HK$38.4 million for HY2024. As advised by the Management, the decrease in revenue was mainly due to (i) substantial completion of the projects on hand during HY2023 while only few projects with small contract sums were ongoing during HY2024; (ii) intense market competition environment, alongside a reduction in number of new projects available for bidding (i.e. the number of tenders submitted by the Group for the three financial years ended 2022, 2023 and 2024 are 111, 65 and 57, respectively); and (iii) delay of certification of the Group's certain work done by the relevant customers as the relevant customers required additional time for certification of the work done involved in several variation orders of the relevant project. As further advised by the Management, certification is granted by the main contractor to validate the Group's completed work, and delays in certification would impact the Group's schedule for revenue recognition.

The gross loss of the Group for HY2024 amounted to approximately HK$13.7 million, representing a decrease of approximately 8.3% as compared to approximately HK$14.9 million gross loss for the six months ended 30 June 2023. The Group's gross loss margin for HY2024 was approximately 35.7%, as compared to gross loss margin approximately 36.2% for HY2023. The decrease in gross loss was mainly due to improving of costs control.

The Group reported loss attributed to owners of the Company of approximately HK$25.5 million for HY2024 as compared to the loss attributed to owners of the Company of approximately HK$23.0 million for HY2023.

As at 30 June 2024, the Group's total assets were approximately HK$47.1 million, reflecting a decrease of about 34.4% compared to approximately HK$71.8 million as at 31 December 2023. The Group's total liabilities, all of which are current liabilities, stood at approximately HK$19.4 million, remaining at a similar level as of 31 December 2023 which amounted to approximately HK$18.6 million. The net assets decreased from HK$53.2 million as at 31 December 2023 to approximately HK$27.7 million as at 30 June 2024. As advised by the Management, the reasons for such decrease are due to the combined effect of (i) decrease in bank balances and cash caused by the delay in certification of works performed, which in turn has affect the Company receiving payments from the main contractors; and (ii) increase in trade and other payables which was primarily attributable to delay in payment by the Group to its supplier due to delay of certification of works by the main contractors.

For the years ended 31 December 2024 and 2023

The Group's revenue increased by approximately HK$23.3 million or approximately 26.8% from approximately HK$86.7 million for FY2023 to approximately HK$110.0 million for FY2024. Such increase was primarily attributable to the increase in number of successful tenders awarded under the provision of wet trades works and the wet trades related ancillary works.

The gross loss of the Group for FY2024 amounted to approximately HK$12.9 million, representing a decrease of approximately 40.0% as compared with gross loss of approximately HK$21.5 million for FY2023. As advised by the Management, the improvement in the Group's gross loss for FY2024 is mainly attributable to increase in revenue during FY2024 compared to FY2023. The Group's gross loss margin for FY2024 was approximately 11.7%, as compared with gross loss margin of approximately 24.8% for FY2023. The gross loss for FY2024 was mainly due to (i) competitive project pricing arising from intense market competition; (ii) delay in certification of works performed of certain projects; and (iii) increase in direct costs from (a) additional subcontractors, resources and other costs related to deal with unexpected changes to the on-site arrangements initiated by customers; and (b) delays in certain projects (mainly for the Tai Tam Project). For the project in Tai Tam, the Group was engaged by the main contractor (which was subsequently went into bankruptcy) to provide construction services for a school in there, with a contract sum of around HK$14,740,000, being the third largest contract sum project engaged by the Group during 1st half of 2024 (the "**Tai Tam Project**").

The loss attributable to owners of the Company for FY2024 decreased by approximately HK$8.3 million or approximately 16.0% from approximately HK$51.6 million for FY2023 to net loss of approximately HK$43.3 million for FY2024. The decrease in the Group's net loss for FY2024 was mainly due to the improvement of gross loss margin and allowance for impairment losses during FY2024.

As at 31 December 2024, the Group's total assets were approximately HK$42.2 million, reflecting a decrease of about 30.5% compared to approximately HK$71.8 million as at 31 December 2023. The Group's total liabilities stood at approximately HK$32.4 million as at 31 December 2024, representing a substantial increase of approximately 74.5% as compared to HK$18.5 million as at 31 December 2023. The net assets decreased by approximately 81.6% from approximately HK$53.2 million as at 31 December 2023 to approximately HK$9.8 million as at 31 December 2024. As advised by the Management, the reasons for such decrease are mainly due to (i) increase in accumulated losses of the Company ; (ii) decrease in prepayment due to the Group's settlement to the subcontractors for the works that were completed, which was reclassified from prepayment in balance sheet as assets to cost of services in the profit and loss statement; and (iii) decrease in contract assets due to the impairment losses under the expected credit loss driven by the delay in certification of works for certain projects completed by the Group, in particular for the Tai Tam Project given that the main contractor of Tai Tam Project was encountering financial difficulties and delayed the certification of works of the Tai Tam Project. Contract assets represent the Group's rights to receive payments for work it has performed but not yet billed.

For the years ended 31 December 2023 and 2022

The revenue from (i) the Construction Services and (ii) the Construction IT Services for FY2023 amounted to approximately HK$86.7 million, representing a decrease of approximately HK$35.8 million or 29.2% as compared to approximately HK$122.5 million FY2022. As advised by the Management, such decrease was primarily attributable to the intense market competition, alongside a reduction in number and size of projects available for bidding, and a decline in value of contracts awarded during FY2023. As a result, the Group generally secured projects with less contract sum.

The gross loss of approximately HK$21.5 million reported for FY2023, representing a decrease of approximately 24.9% as compared to a gross loss of approximately HK$28.6 million for FY2022. As advised by the Management, the improvement in the Group's gross loss for FY2023 is mainly attributable to reduction in the number of loss-making projects recorded during FY2023 as compared to FY2022. The gross loss in FY2023 was mainly due to (i) competitive project pricing arising from intense market competition; (ii) delay in certification of works performed of certain projects; and (iii) inclusion of direct costs from (a) additional subcontractors, resources and other costs related to deal with unexpected changes to the on-site arrangements initiated by customers; and (b) delays in certain projects (mainly for projects at Tai Wai). The gross loss margin was at a similar level in both years (i.e. approximately 24.8% for FY2023 and 23.37% for FY2022).

The loss attributable to owners of the Company for FY2023 decreased by approximately 8.2% from approximately HK$56.2 million for FY2022 to loss attributable to owners of the Company of approximately HK$51.6 million for FY2023. The decrease in the Group's net loss for FY2023 was mainly due to the improvement of gross loss and offset by the increase in allowance for impairment losses during FY2023.

As at 31 December 2023, the Group's total assets were approximately HK$71.8 million, reflecting a decrease of about 53.8% compared to 31 December 2022. The Group's total liabilities, all of which are current liabilities, stood at HK$18.6 million, remaining at a similar level as of 31 December 2022. The net assets decreased by approximately 49.3% from HK$104.8 million as at 31 December 2022 to approximately HK$53.2 million as at 31 December 2023. As advised by the Management, the decrease in net assets are mainly due to (i) the decrease in prepayment due to the Group's settlement to the subcontractors for the works that were completed, which was reclassified from prepayment in balance sheet as assets to cost of services in profit or loss statement; and (ii) the decrease in contract assets due to the impairment losses under the expected credit loss driven by the delay in certification of works for certain projects completed by the Group.

The Management further explained that the Group prepays fees to subcontractors before receiving payments from main contractors for projects. Upon completion of the subcontractors' work, the prepayments recorded on the balance sheet as assets are reclassified as project costs in the profit and loss statement. Hence, decrease in prepayment reflects incurred project costs paid by the Group to subcontractors in advance.

The impairment losses on contract assets would be recorded if there would be delay in certification of works for certain projects completed by the Group which will result in decrease in contract assets. As a result, any delay in certification has negative impact on net assets.

2. Background and intention of the Offeror

2.1 Background information on the Offeror

The Offeror is a company incorporated in Hong Kong with limited liability on 9 January 2025 and is principally engaged in investment holding. As at the Latest Practicable Date, save for entering into the Sale and Purchase Agreement, the Offeror did not engage in any other business activities.

As at the Latest Practicable Date, the Offeror is beneficially wholly-owned by Mr. Zhou, the chairman of the Board and an executive Director.

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

Mr. Zhou completed the business administration course of Business School of Guangxi University (廣西大學商學院) (currently known as the School of Business, Guangxi University (廣西大學工商管理學院)) in July 2003.

Considering that Mr. Zhou lacks expertise in the Group's core business areas, i.e. Construction Services, while Mr. Zhou has experience in the Group's new Beauty & Healthcare Business, it is considered that the Offeror's experience may not be relevant to the Group's core business areas but is believed that Mr. Zhou can facilitate the expansion/development of the Beauty & Healthcare Business in near future.

2.2 Intention of the Offeror in relation to the Group

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

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

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

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

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

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

3. Prospects and outlook of the Group

As detailed in the section headed "(2) Information on the Group" above, over 99% of the Group's total revenue is derived from the provision of Construction Services in Hong Kong since its initial public offer in 2019. As mentioned in "2.2 intention of the Offeror in relation to the Group", the Offeror intends to continue the Group's existing business including Beauty & Healthcare Business after close of the Offer. Accordingly, we searched for statistics relevant to the Group's existing business.

According to The Budget 2025-26, the Hong Kong government has revised its forecast for deficit for the fiscal year 2024-25 which will be recorded at HK$87.2 billion, with an anticipated deficit of HK$67.0 billion for fiscal year 2025-26. The government believes that the Hong Kong economy still faces a very challenging external environment, with a projected GDP growth rate, on average, by 2.9% a year in real terms from 2026 to 2029.

In response to the current deficit situation, the Hong Kong government is implementing measures to enhance fiscal consolidation, including a cumulative 7% reduction in government recurrent expenditure by 2027-28. This fiscal tightening may lead to a reassessment of planned infrastructure projects, potentially delaying or downsizing non-essential initiatives. However, critical developments, such as public housing, railway expansions, and the Northern Metropolis plan, are expected to proceed. According to Housing Bureau's forecast on public housing production from 2025/26 to 2029/30, the Hong Kong government aims to deliver 160,400 new public flats between 2025 and 2030. Additionally, the Long Term Housing Strategy Annual Progress Report 2024 published by Housing Bureau, states that total housing supply target for the 10-year period from 2025-26 to 2034-35 is 440,000 units. As such, while the government's forecasted fiscal deficit may affect the timeline of some projects, we believe that demand for construction services in the public housing sector will remain steady after considering the government's Long Term Housing Strategy and its forecast for public housing production from 2025/26 to 2029/30.

Additionally, the private sector is struggling due to a downturn in the property market. According to the property data, namely private domestic – price indices by class (territory-wide) updated on 27 March 2025 by the Rating and Valuation Department, we noted that property prices dropped by approximately 11.47% in 2024, leading to reduced developer confidence and fewer land sales. Historically, property prices in Hong Kong have seen a significant drop in growth rate in properties price indices, growth rate in prices indices recorded a high of 13% in 2018 then declined to 1.51% in 2019, dropped further to -0.47% in 2020, and, rebounded in 2021 with a 3% increase. Afterwards, the price indices recorded a negative growth rate of 5.86%, 8.74% and 11.47% in 2022, 2023, and 2024 due to rising interest rates and economic uncertainty. According to the official website of the Hong Kong Monetary Authority, the composite interest rate increased from approximately 0.19% in late 2021 to approximately 2.73% in March 2024. With high borrowing costs and uncertain economic conditions which may raise the cost of financing construction projects, private developers are scaling back on new projects, resulting in lower demand for construction services.

Below is a graphical representation of historical property price changes in Hong Kong:

Source: the website of the Rating and Valuation Department (https://www.rvd.gov.hk/en/index.html)

Hong Kong's construction industry also faces a labour shortage, with an aging workforce and difficulties in attracting young talent. This trend has led to increased labor costs, further impacting project viability. According to the press release dated 14 November 2024 published by the Labour and Welfare Bureau, the government indicates a manpower shortfall of 15,000 workers in the construction industry in 2023, with two-thirds being skilled or semi-skilled workers and the rest comprising professionals and managers. Due to the aging workforce, this shortfall is expected to increase threefold, reaching 45,000 to 55,000 by 2028. Additionally, based on Manpower Forecast for Hong Kong Construction Industry published by the Construction Industry Council ("**CIC**") in February 2023, CIC estimates a shortage of 5,500 to 6,000 construction professionals in 2025 and 2026 respectively, including architects, surveyors, and engineers. We are of the view that the continuous shortfall of construction workforce in Hong Kong would adversely affect the cost of operations of the Group. According to its official website, CIC is a statutory body in Hong Kong, established on 1 February 2007 to advise the Hong Kong government and enhance industry standards. It comprises a chairman and 24 members representing various sectors of the industry including employers, professionals, academics, contractors, workers, independent persons, and Government officials. Given CIC's advisory role to the Hong Kong government on construction industry issues, we consider its data to be reliable.

Having considered the local fiscal deficit, property market downturn, high borrowing costs, and labor shortages in the construction industry, we are of the view that challenging times may be ahead regarding the prospects and outlook of the Group.

On the other hand, China's beauty and healthcare services industry is undergoing rapid transformation, driven by a combination of economic growth, demographic shifts, and supportive government policies in relation to healthcare industry and so on. A key economic driver is the steady rise in disposable income, which has increased consumers' ability and willingness to spend on personal wellness and medical beauty services. According to the National Bureau of Statistics, China's per capita disposable income of urban residents rose from RMB31,195 in 2015 to an RMB54,188 in 2024, representing a compound annual growth rate of approximately 5.68%. It is expected that this rise in purchasing power will increase demand for health and beauty services. At the same time, China is experiencing a demographic shift toward an aging society. According to an article published by the State Council Information Office of the PRC on 2 January 2025, titled "China Implements Gradual Retirement Age Increase to Address Population Aging", government projections estimate that the population aged 60 and above will exceed 400 million by 2035. It is expected that this aging trend will affect healthcare priorities, leading to increased demand for age-related medical services, long-term care, and wellness solutions tailored to senior citizens. Furthermore, the Chinese government has introduced the "Healthy China 2030" initiative, a comprehensive national strategy aimed at enhancing public health infrastructure, expanding preventive care, and encouraging private sector participation. Given the aforesaid, we believe the future of beauty and healthcare services is positive.

4. Principal terms of the Offer

Yellow River, for and on behalf of the Offeror, making the Offer to acquire all the Offer Shares in compliance with the Takeovers Code on the following basis:

For each Offer Share . . . . **HK$0.2565 in cash**

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

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

The Offer is unconditional in all respects and is extended to all Shares in issue other than those Shares held by the Offeror and parties acting in concert with it.

The Offer Shares to be acquired under the Offer shall be fully paid and free from all encumbrances and together with all rights and benefits attached thereto, including but not limited to the right to receive in full all dividends and other distributions, if any, declared, made or paid on or after the date on which the Offer is made, that is, the date of despatch of this Composite Document. As at the Latest Practicable Date, the Company has not declared any dividend which is outstanding and not yet paid and the Company does not intend to declare, make or pay any dividend or other distributions prior to close of the Offer.

4.1 Analysis on the Offer Price

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

(i) a discount of 43.00% to the closing price of HK$0.45 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

(ii) a discount of approximately 70.85% to the closing price of HK$0.8800 per Share as quoted on the Stock Exchange on the Last Trading Day;

(iii) a discount of approximately 70.72% to the average closing price of approximately HK$0.8760 per Share as quoted on the Stock Exchange for the five (5) consecutive trading days immediately prior to and including the Last Trading Day; (the "**5-day Average Price**")

(iv) a discount of approximately 70.85% to the average closing price of approximately HK$0.8800 per Share as quoted on the Stock Exchange for the ten (10) consecutive trading days immediately prior to and including the Last Trading Day (the "**10-day Average Price**");

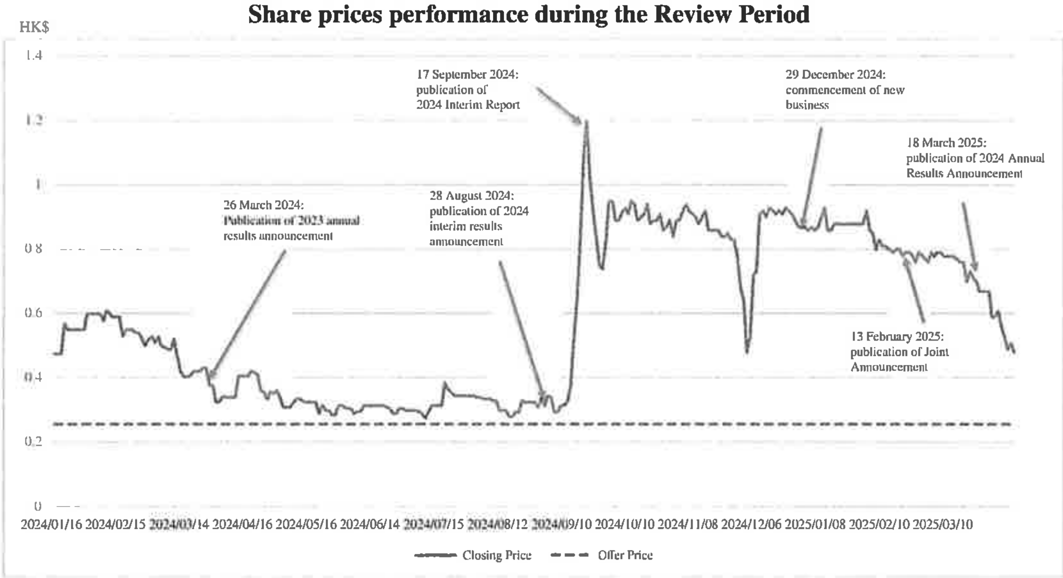
(v) a discount of approximately 70.51% to the average closing price of approximately HK$0.8697 per Share as quoted on the Stock Exchange for the thirty (30) consecutive trading days immediately prior to and including the Last Trading Day (the "**30-day Average Price**"); and

(vi) a premium of approximately 714.29% over the Group's audited consolidated net assets value attributable to the Shareholders per Share of approximately HK$0.0315 as at 31 December 2024 (based on a total of 312,000,000 Shares as at the Latest Practicable Date and the Group's audited consolidated net assets value attributable to the Shareholders of approximately HK$9,830,000 as at 31 December 2024).

4.2 Historical performance of the Shares

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 16 January 2024, being the twelve-month period prior to the Last Trading Day (i.e. 15 January 2025), up to and including the Latest Practicable Date (the "**Review Period**"):

Share prices performance during the Review Period



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

Note: The trading of the Shares on the Stock Exchange was suspended at 9:00 a.m. on 16 January 2025 pending the release of the Joint Announcement. Trading of the Shares on the Stock Exchange was resumed at 9:00 a.m. on 24 January 2025.

We have reviewed the movements in the closing price of the Shares for the Review Period. We consider 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.

The Shares have been trading above the Offer Price during the entire Review Period. The lowest and highest closing price of the Shares during the Review Period were HK$0.275 per Share recorded on 8 July 2024 and HK$1.20 per Share recorded on 17 September 2024, as quoted on the Stock Exchange. The average daily closing price of the Shares during the Review Period is approximately HK$0.586 per Share. The Offer Price of HK$0.2565 per Share represents (i) a discount of approximately 6.73% to the lowest closing price of HK$0.275 per Share; (ii) a discount of approximately 78.63% to the highest closing price of HK$1.20 per Share; and (iii) a discount of approximately 56.23% to the average daily closing price of approximately HK$0.586 per Share during the Review Period.

Pre-Announcement Period

During the period under review from 16 January 2024 to 15 January 2025 (being the Last Trading Day) (the **"Pre-Announcement Period"**), the lowest and highest closing price of the Shares during the Pre-Announcement Period were HK$0.275 per Share recorded on 8 July 2024 and HK$1.20 per Share recorded on 17 September 2024, respectively as quoted on the Stock Exchange. The Offer Price of HK$0.2565 per Share represents (i) a discount of approximately 6.73% to the lowest closing price of HK$0.275 per Share; (ii) a discount of approximately 78.63% to the highest closing price of HK$1.20 per Share; and (iii) a discount of approximately 55.26% to the average daily closing price of approximately HK$0.573 per Share during the Pre-Announcement Period.

As depicted in the above chart, the Share price saw a general decline trend from mid-January 2024 to early September 2024 before reaching the peak of HK$1.20 on 17 September 2024. Subsequently, the Share price followed a sharp decrease from HK$1.20 to HK$0.74 on 25 September 2024. Afterward, the Share prices fluctuated within a range between HK$0.40 and HK$1.0. We have observed that the Company (i) announced its interim results on 28 August 2024 and published its 2024 interim report on 17 September 2024; (ii) published an announcement regarding appointment of an executive Director on 9 September 2024; (iii) published an announcement regarding change of independent non-executive Director and change of board composition on 29 November 2024; (iv) published an announcement in relation to change of company name on 6 December 2024; (v) announced the commencement of new business on 29 December 2024; (vi) announced the appointment of senior management of the Group on 6 January 2025; and (vii) published the Joint Announcement on 13 February 2025. In addition, we noted that the trading prices of the Company experienced substantial fluctuations in late September 2024 and late November 2024. We have made inquiries with the Management and were advised that save for the publication of announcements of the Company as described above, the Directors were not aware of any specific reasons that may have an impact on the fluctuations of Share prices during the Pre-Announcement Period (including substantial fluctuations in late September 2024 and late November 2024).

Post-Announcement Period

During the period under review from 24 January 2025 (i.e. day of resumption of trading after publication of the Joint Announcement) up to and including the Latest Practicable Date, (the "**Post-Announcement Period**"), the Offer Price of HK$0.2565 per Share represents (i) a discount of approximately 43.00% to the lowest closing price of HK$0.45 per Share; (ii) a discount of approximately 72.12% to the highest closing price of HK$0.92 per Share during the Post-Announcement Period; and (iii) a discount of approximately 65.47% to the average daily closing price of approximately HK$0.743 per Share during the Post-Announcement Period.

As explained in section "1.2 Historical financial information" in this letter, it is understood that the net assets value of the Group has been decreasing and stood at approximately HK$9.83 million as at 31 December 2024, which resulted the Offer Price represents a premium of approximately 714.29% over the net asset value per Share of approximately HK$0.0315 as at 31 December 2024. Despite that, we consider that the market price of the Company serves as a more accurate reflection of the actual value that could bring to Shareholders, in this regard, we are of the view that the Offer Price is unattractive.

Given the aforesaid and having considered: (i) a discount of approximately 43.00% to the closing price of HK$0.45 on the Latest Practicable Date; (ii) a discount of approximately 56.23% to the average closing price of approximately HK$0.586 during the Review Period; and (iii) the Shares have consistently traded at a price higher than the Offer Price during the entire Review Period, we are of the view that the Offer Price is unattractive and therefore not fair and not reasonable.

Independent Shareholders should note that the information set out above is not an indicator of the future performance of the Shares and that the price of the Shares may increase or decrease from its closing price after the Latest Practicable Date.

4.3 Historical trading volume of the Shares

The following table sets out the historical monthly trading volumes of the Shares and the percentage of the number of Shares traded as compared to the total number of Shares in issue during the Review Period.

Month/Period	Total trading volume for month/period (number of Shares)	Number of trading days during the month (days)	Average daily trading volume for month/period (number of Shares)	Percentage of average daily trading volume to total number of the Shares in issue as at the Latest Practicable Date *(note 3)*	Percentage of average daily trading volume to total number of the Shares held by public Shareholders as at the respective month or period *(note 4)*
2024					
16 – 31 January *(note 1)*	2,179,000	12	181,583	0.058%	0.155%
February	3,367,000	19	177,211	0.057%	0.151%
March	632,000	20	31,600	0.010%	0.027%
April	2,588,000	19	136,211	0.044%	0.116%
May	679,000	21	32,333	0.010%	0.028%
June	178,000	19	9,368	0.003%	0.008%
July	2,591,000	22	117,773	0.038%	0.101%
August	768,000	22	34,909	0.011%	0.030%
September	29,993,600	19	1,578,611	0.506%	1.349%
October	7,861,000	21	374,333	0.120%	0.320%
November	13,225,000	21	629,762	0.202%	0.538%
December	13,286,000	20	664,300	0.213%	0.568%
2025					
January *(note 2)*	5,530,000	19	291,053	0.093%	0.249%
February	3,549,620	20	177,481	0.057%	0.152%
March	5,899,000	21	280,905	0.090%	0.240%
1 – 7 April (i.e. the Latest Practicable Date)	2,324,000	4	581,000	0.186%	0.497%
			Maximum	0.506%	1.349%
			Minimum	0.003%	0.008%
			Average	0.106%	0.283%

Source: www.hkex.com.hk

Notes:

1. The Review Period commenced on 16 January 2024.

2. The trading of the Shares on the Stock Exchange was suspended at 9:00 a.m. on 16 January 2025 pending the release of the Joint Announcement. Trading of the Shares on the Stock Exchange was resumed at 9:00 a.m. on 24 January 2025.

3. Based on 312,000,000 Shares in issue as at the end of each month/period.

4. Based on 117,000,000 Shares held by public Shareholders as at the Latest Practicable Date.

As illustrated above, the average daily trading volume of the Shares as a percentage of the total number of the Shares in issue as at the Latest Practicable Date ranged from the lowest of approximately 0.003% in June 2024 to the highest of approximately 0.506% in September 2024, with an average daily trading volume of approximately 0.106% of the total number of issued Shares as at the Latest Practicable Date.

If only Shares held by public Shareholders (the "**Free Float Shares**") are considered in calculating the percentage of average daily trading volume of the Shares as at the respective month/period under the Review Period, the average trading volume of the Free Float Shares during the Review Period ranged from the lowest of approximately 0.008% in June 2024 to the highest of approximately 1.349% in September 2024 with an average daily trading volume of approximately 0.283% of the total number of Free Float Shares as at the Latest Practicable Date. Therefore, the trading volume of the Shares was generally thin in the Review Period and illiquid in the open market.

Given the overall thin historical trading volume of the Shares during the entire Review Period, the Independent Shareholders (especially those with relatively sizeable shareholdings) may find it difficult to dispose of a large volume of Shares in the open market at a fixed cash price within a short period of time without exerting downward pressure on the Shares price. The Independent Shareholders are also advised to consider selling their Shares in the open market instead of accepting the Offer given the closing prices of the Shares had been staying well above the Offer Price during the entire Review Period, after taking into account the possible pressure on the Share price when selling in bulk, if net proceeds from such sale of Shares would exceed the net amount receivable under the Offer. Independent Shareholders should also be aware that they may have to sell their Shares in the market by batches if they do not accept the Offer, given the average daily trading volume of the Shares during the Review Period ranged from approximately 9,368 Shares to approximately 1,578,611 Shares as shown in the table above.

4.4 Comparable Analysis

In assessing the fairness and reasonableness of the Offer Price, we have considered using the price-to-earnings ratio (the "**P/E ratio**") analysis and the price-to-book ratio (the "**P/B ratio**") analysis to compare the Offer Price against the market valuation of other comparable companies. P/E ratio analysis and P/B ratio analysis are commonly adopted valuation method in the valuation of companies. Given that the Group was loss-making for the recent three consecutive financial years, and no dividend was distributed for the last financial year, the P/E Ratio analysis and dividend yield analysis are not applicable.

Based on the Offer Price of HK$0.2565 per Offer Share and the total number of issued Shares of 312,000,000 as at the Latest Practicable Date, the Company is valued at approximately HK$80.03 million. The P/B Ratio of the Company implied by the Offer Price is approximately 8.14 times (the "**Implied P/B Ratio**") based on the audited consolidated net assets of the Group of approximately HK$9.83 million as at 31 December 2024.

Given that (i) approximately 99% of the Group's revenue is derived from providing Construction Services in Hong Kong; and (ii) the market capitalisation of the Company was approximately HK$140.40 million as at the Latest Practicable Date (based on the total issued shares of 312,000,000 Shares and the closing price of Share of HK$0.45 as at the Latest Practicable Date), for the purpose of our comparable analysis, we have identified comparable companies based on the following criteria: (i) the shares of which are listed on the Stock Exchange; (ii) engages in a principal business similar to those of the Group (i.e. provision of construction services in both private and public sectors); (iii) generated more than 50% of its revenue from the provision of construction services in Hong Kong in most recent completed financial year; and (iv) are of comparable size to the Company with market capitalisation as at the Latest Practicable Date from HK$100 million and up to HK$500 million. Based on such criteria, we have identified an exhaustive list of 10 comparable companies (the "**Comparable Companies**").

Despite differences in market capitalisation between the Company and the Comparable Companies and the Company is valued at approximately HK$80.03 million based on the Offer Price, we consider the Comparable Companies to be fair and representative after taking into account that: (i) the Comparable Companies engage in similar principal business activities with same geographical location; (ii) the Comparable Companies' shares are listed on the main board of the Stock Exchange; (iii) the selected market capitalisation range ensures comparability in terms of market conditions, investor perception, operational scale, and business risks; and (iv) the Comparable Companies represents an exhaustive list of companies meeting the aforesaid selection criteria, we consider the selection criteria to be fair and representative and the Comparable Companies identified based on these criteria constitute an appropriate and representative reference for assessing the fairness and reasonableness of the Offer Price.

We noted that the P/B ratio of each of SOCAM and Hanison is approximately 0.06 times and 0.08 times. We observed from the latest available annual/interim results/reports that both SOCAM and Hanison recorded substantial amount of investment properties and properties under development for sale under their balance sheet as both companies also engage in property development business, which have considerably enlarged their net asset value which is not comparable to other Comparable Companies. Therefore, with a view to ensure the Comparable Companies to provide a comparable reference, SOCAM and Hanison are considered as and have been excluded from our analysis. Shareholders should note that the P/B ratio range of Comparable Companies (including SOCAM and Hanison) set out below is for reference only.

No.	**Company name (Stock code)**	**Principal activities**	**Market capitalisation as at the Latest Practicable Date** *(Note 1)* *(HK$' million)*	**Net assets** *(HK$' 000)*	**P/B ratio (times)** *(Note 2)*
1	Affluent Foundation Holdings Limited (stock code: 1757)	The group is a subcontractor engaged in the provision of services related to foundation works in Hong Kong including excavation and lateral support works, pile caps construction, and other services, such as demolition works, underground drainage works, earthworks and structural steelworks.	120.00	88,181	1.36
2	Wecon Holdings Limited (stock code: 1793)	The group is principally engaged in the provision of building construction services and repair, maintenance, alteration and addition works services in Hong Kong.	128.00	273,857	0.47
3	Geotech Holdings Limited (stock code: 1707)	The group is principally engaged in provision of foundation works, civil engineering contractual service and general building works in Hong Kong, and environmental protection businesses including harmless waste treatments, development and management of environmental protection industrial park and new energy materials in Mainland China.	171.36	161,471	1.06

No.	Company name (Stock code)	Principal activities	Market capitalisation as at the Latest Practicable Date *(Note 1)* *(HK$' million)*	Net assets *(HK$' 000)*	P/B ratio (times) *(Note 2)*
4.	SOCAM Development Limited (stock code: 983) ("**SOCAM**")	The group is principally engaged in construction and property businesses, with operations spanning Mainland China, Hong Kong and Macau.	132.54	2,254,000	0.06 *(Note 5)*
5	SFK Construction Holdings Limited (stock code: 1447)	The principal activities of the group are general building, civil engineering and the provision of other services in Hong Kong.	220.00	371,129	0.59
6	CR Construction Group Holdings Limited (stock code: 1582)	The group is principally acts as a main contractor in building construction works and repair, maintenance, alteration and addition works across the public and private sectors in Hong Kong, Malaysia and the United Kingdom with primary market focus in Hong Kong.	212.50	675,893	0.32
7	Landrich Holding Limited (stock code: 2132)	The group provides construction engineering works in Hong Kong.	182.40	317,457	0.57
8	Dragon Rise Group Holdings Limited (stock code: 6829)	The Group is primarily engaged in undertaking foundation works in Hong Kong as a subcontractor.	460.80	289,141	1.59
9	Hanison Construction Holdings Limited (stock code: 896)	The company is principally engaged in construction engineering businesses in Hong Kong.	289.73	3,575,489	0.08 *(Note 6)*

No.	Company name (Stock code)	Principal activities	Market capitalisation as at the Latest Practicable Date *(Note 1)* *(HK$' million)*	Net assets *(HK$' 000)*	P/B ratio (times) *(Note 2)*
10	Yau Lee Holdings Limited (stock code: 406)	The group are principally engaged in contracting of building construction, plumbing, renovation, maintenance and fitting-out projects, electrical and mechanical installation, building materials supply, property investment and development and hotel operations with primary market focus in Hong Kong.	407.39	1,536,159	0.27
		with outliers for reference only:	**without outliers**		
		Maximum 1.59	**Maximum**	1.59	
		Minimum 0.06	**Minimum**	0.27	
		Median 0.52	**Median**	0.58	
		Average 0.64	**Average**	0.78	
	The Company		**80.03** *(note 3)*	**8.14** *(note 4)*	

Sources: the website of the Stock Exchange (www.hkex.com.hk) and the financial reports of the respective Comparable Companies

Notes:

1. The market capitalisation of the Comparable Companies was calculated based on the closing share prices and the total issued shares of the Comparable Companies as at the Latest Practicable Date.

2. The P/B ratio was based on the then market capitalisation of Comparable Companies as at the Latest Practicable Date, divided by the net asset value of the Comparable Companies as stated in their respective latest available annual report or interim report.

3. The market capitalisation of the Company is calculated based on the Offer Price of HK$0.2565 and the number of issued Shares as at the Latest Practicable Date (i.e. 312,000,000 Shares).

4. The Implied P/B Ratio of approximately 8.14 times is based on (a) the implied market capitalisation of the Company of approximately HK$80.03 million based on the Offer Price and the issued number of Shares as at the Latest Practicable Date; and (b) the audited consolidated net assets of the Group of approximately HK$9.83 million as at 31 December 2024.

5. As noted from the latest annual results announcement of SOCAM, SOCAM's balance sheet consists of, amongst others, approximately HK$3,818 million of investment properties, approximately HK$570 million of properties held for sale and approximately HK$160 million of properties under development for sale, hence the P/B ratio of SOCAM, calculated based on its market capitalisation as of the Latest Practicable Date and its latest available net asset value, is approximately 0.06 times, which is significantly lower than the P/B ratios of other Comparable Companies, hence, we consider SOCAM to be an outlier and has been excluded from our analysis.

6. As noted from the latest interim report of Hanison, Hanison's balance sheet consists of, amongst others, approximately HK$2,198 million of investment properties and approximately HK$1,162 million of properties under development for sale, hence the P/B ratio of Hanison, calculated based on its market capitalisation as of the Latest Practicable Date and its latest available net asset value, is approximately 0.08 times, which is significantly lower than the P/B ratios of other Comparable Companies, hence we consider Hanison to be an outlier and has been excluded from our analysis.

As set out in the above table, the P/B ratios of the Comparable Companies (without outliers) ranged from approximately 0.27 times to approximately 1.59 times with an average of approximately 0.78 times and a median of 0.58 times.

The Implied P/B Ratio, based on the Offer Price, is approximately 8.14 times, which is above the range and the average of the Comparable Companies, indicating that the valuation of the Company implied by the Offer Price represents a premium relative to the Comparable Companies.

Despite that the Implied P/B Ratio is above the range, average and median of the P/B ratios of the Comparable Companies (without outliers) and the Offer Price represents a premium of approximately 714.29% over the net asset value per Share of approximately HK$0.0315 as at 31 December 2024, we consider the Offer Price is unattractive given that the market price of the Company serves as a more accurate reflection of the actual value that could bring to Shareholders. In this regard, the Offer is not fair and reasonable from the comparable companies analysis.

5. Public float and maintaining listing status of the Company

As stated in the "Letter from Yellow Securities" contained in this Composite Document, The Offeror will, together with the Company, use reasonable endeavours to maintain the listing status of the Shares on the Stock Exchange and procure that not less than 25% of the entire issued share capital in the Company be held by the public in compliance with the Listing Rules.

The Stock Exchange has stated that if, at the close of the Offer, less than the minimum prescribed percentage applicable to the Company, being 25% of the issued Shares (excluding treasury shares), are held by the public, or if the Stock Exchange believes that: (i) a false market exists or may exist in the trading of the Shares; or (ii) that there are insufficient Shares in public hands to maintain an orderly market, it will consider exercising its discretion to suspend dealings in the Shares. Therefore, it should be noted that, upon the close of the Offer, there may be insufficient public float of the Shares and the trading in the Shares may be suspended until sufficient public float exists for the Shares.

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

No dividend was paid or proposed by the Company since its initial public offer in 2019 up to and including the financial year ended 31 December 2024.

RECOMMENDATION

Having considered below factors and reasons:

(i) the Offer Price is unattractive, given (i) the closing prices of the Shares has been trading above the Offer Price during the entire Review Period; (ii) the Offer Price represents a discount of approximately 70.85%, 70.72%, 70.85%, and 70.51% to the closing price as quoted on the Last Trading Day, 5-day Average Price, 10-day Average Price, and 30-day Average Price, respectively; and (iii) the Offer Price represents a discount of approximately 43.00% to the closing price of the Shares of HK$0.45 as at the Latest Practicable Date. Therefore, the Offer Price is not fair and reasonable from the trading prices analysis;

(ii) despite that the Implied P/B Ratio is above the range and average of the P/B ratios of the Comparable Companies (without outliers) and the Offer Price represents a premium of approximately 714.29% over the net asset value per Share of approximately HK$0.0315 as at 31 December 2024, we consider the Offer Price is unattractive given that the market price of the Company serves as a more accurate reflection of the actual value that could bring to Shareholders. In this regard, the Offer is not fair and reasonable from the comparable companies analysis;

(iii) the revenue of the Group for FY2024 has improved by approximately 26.8% as compared to FY2023, alongside the loss and total comprehensive expense for the year attributable to equity holders of the Company has reduced from approximately HK$51.6 million for FY2023 to approximately HK$43.3 million for FY2024. In addition, given that the Hong Kong government is expected to announce critical developments as mentioned in (iv) below, it is anticipated that the Company could benefit from these projects. In light of the aforesaid, Shareholders are advised to consider the Company's improving outlook and long-term potential, and therefore are advised to retain their interest in the Company;

(iv) the outlook of Hong Kong's construction industry is still uncertain given the fiscal deficit in Hong Kong, property market downturn, high borrowing costs, and labour shortages in the construction industry. However, some critical developments, such as public housing, railway expansions, and the Northern Metropolis plan, are expected to proceed in the future, which ensures a steady demand for construction services. In view of the Company's potential to benefit from these critical developments, Shareholders are encouraged to consider the Company's long-term growth prospects and may find it in their best interests to retain their shareholding in the Company; and

(v) the Offeror has experience in relation to the Group's new Beauty & Healthcare Business, where it is believed that Mr. Zhou can facilitate the development/expansion of such business of the Group and may assist the Group to capture the future growth in Beauty & Healthcare Business, which is expected to diversify the Group's income stream, thereby enhancing the Group's resilience and strengthening its ability to withstand market fluctuations and industry challenges, therefore, Shareholders may consider retaining their shareholding in order to pursue the long-term value.

we are of the opinion that the Offer is not fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders not to accept the Offer.

Nevertheless, the Independent Shareholders should also note that (i) there is no guarantee that the Share price will sustain at a level above the Offer Price and/or after the Offer Period; and (ii) the Independent Shareholders (regardless to their amount of shareholdings) may not be able to realise their investments in the Shares at a price higher than the Offer Price when they are going to dispose of their partial or entire holdings. In such circumstances, the Offer might provide an exit alternative for the Independent Shareholders who would like to realise their investments in the Shares at the Offer Price of HK$0.2565. However, for those Independent Shareholders who intend to accept the Offer, we would remind them to closely monitor the market price and liquidity of the Shares during the Offer Period, and having regard to their own circumstances, consider selling the Shares in the open market, instead of accepting the Offer, if the net proceeds from such sale of Shares would be higher than that receivable under the Offer. For those Independent Shareholders who intend to dispose of large blocks of Shares in the open market, we would also remind them of the possible difficulty in disposing of their Shares in the open market without creating downward pressure on the market prices of the Shares as a result of the thin trading in the Shares.

Those Independent Shareholders who decide to retain part or all of their investments in the Shares should carefully monitor the financial performance of the Group and be aware of the potential difficulties they may encounter in disposing of their investments in the Shares at a price higher than the Offer Price after the Offer Period given the generally low trading volume during the Review Period.

Yours Faithfully,
For and on behalf of
Merdeka Corporate Finance Limited

Wallace So
Managing Director

Mr. Wallace So is a licensed person registered with the Securities and Futures Commission of Hong Kong, a responsible officer of Merdeka Corporate Finance Limited to carry out type 6 (advising on corporate finance) regulated activity under the SFO and a licensed representative of Merdeka Investment Management Limited to carry out type 4 (advising on securities) and type 9 (asset management) regulated activities under the SFO. Mr. Wallace So has over 13 years of experience in corporate finance industry.