



7 December 2018

*To the Independent Board Committee of  
CHerish Holdings Limited*

Dear Sir or Madam,

**MANDATORY UNCONDITIONAL CASH OFFER BY  
EMPEROR CAPITAL LIMITED  
ON BEHALF OF CHINA CENTURY HOLDINGS LIMITED  
TO ACQUIRE ALL THE ISSUED SHARES OF  
CHERISH HOLDINGS LIMITED  
(OTHER THAN THOSE ALREADY OWNED OR AGREED TO BE ACQUIRED BY  
CHINA CENTURY HOLDINGS LIMITED  
AND PARTIES ACTING IN CONCERT WITH IT)**

**INTRODUCTION**

We refer to our engagement as the independent financial adviser to make recommendations to the independent board committee (the “**Independent Board Committee**”) of CHerish Holdings Limited (the “**Company**”) in relation to the mandatory unconditional cash offer (the “**Offer**”) for all the issued shares of the Company (other than those already owned or agreed to be acquired by China Century Holdings Limited (the “**Offeror**”) and parties acting in concert with it) being made by Emperor Capital Limited (“**Emperor Capital**”) on behalf of the Offeror. Details of the Offer are disclosed in the composite offer and response document in respect of the Offer jointly issued by the Offeror and the Company dated 7 December 2018 (the “**Composite Document**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Composite Document unless the context otherwise requires.

On 19 October 2018, the Vendor, the Guarantors 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 397,865,000 Shares in aggregate, representing approximately 51.82% of the entire issued share capital of the Company as at the Latest Practicable Date, for a consideration of HK\$254,999,635.80 in aggregate, equivalent to HK\$0.64092 per Sale Share.

The purchase price per Sale Share under the Sale and Purchase Agreement was arrived at after arm’s length negotiations between the Offeror and the Vendor. The Sale Shares represented the entire holding of the Shares by the Vendor immediately prior to the entering into of the Sale and Purchase Agreement. Completion took place on 22 October 2018.

Immediately prior to Completion, the Offeror and parties acting in concert with it did not hold, own, control or have direction over any Shares or voting rights of the Company or any other relevant securities. Immediately upon Completion and as at the Latest Practicable Date, the Offeror and parties acting in concert with it owned a total of 397,865,000 Shares in aggregate, representing approximately 51.82% of the entire issued share capital of the Company. 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 or parties acting in concert with it).

As at the Latest Practicable Date, the Company had 767,750,000 Shares in issue. The Company did not have any outstanding options, derivatives, warrants or securities which are convertible or exchangeable into Shares and had not entered into any agreement for the issue of such options, derivatives, warrants or securities which are convertible or exchangeable into Shares, as at the Latest Practicable Date.

#### **THE INDEPENDENT BOARD COMMITTEE**

Pursuant to Rule 2.1 and Rule 2.8 of the Takeovers Code, the Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Cheung Wai Lun Jacky, Mr. Lee Chi Ming and Mr. Tang Chi Wai, has been established to advise the Independent Shareholders as to whether the terms of the Offer are fair and reasonable and as to acceptance of the Offer. We, Astrum Capital Management Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee in this regard. Our appointment has been approved by the Independent Board Committee in accordance with Rule 2.1 of the Takeovers Code.

We are not connected with the Company, the Offeror, the Vendor, or any of their respective substantial shareholders, directors or chief executives, or any of their respective associates, or any party acting, or presumed to be acting, in concert with any of them and accordingly, are considered suitable to give independent advice to the Independent Board Committee in respect of the Offer. Apart from the normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company, the Offeror, the Vendor, or any of their respective substantial shareholders, directors or chief executives, or any of their respective associates, or any party acting, or presumed to be acting, in concert with any of them.

#### **BASIS OF OUR OPINION**

In formulating our opinion and recommendations, we have reviewed, amongst others, the Joint Announcement, the annual reports of the Company for the years ended 31 March 2017 and 31 March 2018 (the “**2016–17 Annual Report**” and “**2017–18 Annual Report**”, respectively), the interim results announcement of the Company for the six months ended 30 September 2018 (the “**2018 Interim Results Announcement**”), and the information contained in the Composite Document. We have also discussed with and reviewed the information provided by the management of the Group (the “**Management**”) regarding the business and outlook of the Group.

We have relied on the information and facts provided, and the opinions expressed, by the Directors and the Management, which we have assumed to be true, accurate, complete and not misleading in all material aspects as at the Latest Practicable Date and the Shareholders will be notified of any material changes to such representations as soon as possible in accordance with Rule 9.1 of the Takeovers Code. We have sought and received confirmation from the Directors and the Management that no material facts have been omitted from the information provided and opinions expressed by them to us. We consider that the information which we have received is sufficient for us to reach our opinion and recommendations as set out in this letter and to justify our reliance on such information. We have no reason to doubt the truth, accuracy or completeness of the information provided to us or to believe that any material information has been omitted or withheld. We have not, however, conducted any independent investigation into the business and affairs of the Group nor have we carried out any independent verification of the information provided.

We have not considered the tax and regulatory implications on the Independent Shareholders of their acceptances or non-acceptances of the Offer since these are particular to their own individual circumstances. In particular, the Independent Shareholders who are residents outside Hong Kong or subject to overseas taxes or Hong Kong taxation on securities dealings should consider their own tax positions with regard to the Offer and, if in any doubt, should consult their own professional advisers.

#### **PRINCIPAL TERMS OF THE OFFER**

Emperor Capital, on behalf of the Offeror, is making the Offer on the following terms in accordance with Rule 26.1 of the Takeovers Code:

**For each Offer Share..... HK\$0.641 in cash**

The Offer Price of HK\$0.641 per Offer Share is equal to (after rounding up) the purchase price per Sale Share under the Sale and Purchase Agreement which was arrived at after arm's length negotiations between the Offeror and the Vendor. The Offer is unconditional in all respects.

The Offer extends to all Independent Shareholders in accordance with the Takeovers Code. The Offer Shares to be acquired under the Offer shall be fully paid and free from all Encumbrances and together with all rights attaching to them, including the right to receive in full all dividends and other distributions, if any, declared, made or paid by reference to a record date on or after the date on which the Offer is made, i.e. the date of despatch of the Composite Document.

For further details of the Offer (including the terms and procedures for acceptance of the Offer), please refer to the "Letter from Emperor Capital" as set out on pages 8 to 17 of the Composite Document, Appendix I to the Composite Document and the accompanying Form of Acceptance.

## PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the terms of the Offer, we have considered the following principal factors and reasons:

### 1. Business, financial performance and prospects of the Group

#### A. Business of the Group

The Group is principally engaged in the provision of site formation works as a subcontractor in Hong Kong. The site formations works undertaken by the Group generally include (a) general earthworks (including soil and rock excavation, disposal of construction and demolition materials, backfilling and compaction for forming a new site or achieving designed formation level for later development); (b) tunnel excavation works (including rock excavation works for construction of tunnels through drill and break and/or drill and blast methods as well as construction of associated temporary tunnel support structures); (c) foundation works (including excavation and lateral support works and associated structural works for construction of pile caps for commercial and residential building projects); and (d) road and drainage works.

#### B. Financial information of the Group

Set forth below are (i) the audited consolidated financial information of the Group for the three years ended 31 March 2016, 31 March 2017 and 31 March 2018 (“FY2016”, “FY2017” and “FY2018”, respectively) as extracted from the 2016–17 Annual Report and the 2017–18 Annual Report, respectively; and (ii) the unaudited consolidated financial information of the Group for the six months ended 30 September 2017 and 30 September 2018 (“1H2017” and “1H2018”, respectively) as extracted from the 2018 Interim Results Announcement:

Table 1: Financial information of the Group

	FY2016 HK\$'000 (audited)	FY2017 HK\$'000 (audited)	FY2018 HK\$'000 (audited)	1H2017 HK\$'000 (unaudited)	1H2018 HK\$'000 (unaudited)
Revenue	210,046	266,167	192,341	91,127	76,860
Gross profit/(loss)	42,500	49,821	23,447	15,124	(3,348)
Profit/(loss) before taxation	34,599	27,145	10,931	9,649	(9,385)
Profit/(loss) attributable to owners of the Company for the year/period	28,424	19,746	8,714	7,898	(8,041)

	As at 31 March 2016 HK\$'000 (audited)	As at 31 March 2017 HK\$'000 (audited)	As at 31 March 2018 HK\$'000 (audited)	As at 30 September 2018 HK\$'000 (unaudited)
Non-current assets	21,910	31,135	58,793	61,201
Current assets	104,822	168,266	149,334	115,732
Current (liabilities)	(75,720)	(35,330)	(34,220)	(16,905)
Net current assets	29,102	132,936	115,114	98,827
Non-current (liabilities)	(5,810)	(8,053)	(9,175)	(5,031)
Equity attributable to owners of the Company	45,202	156,018	164,732	154,997

*Source: the 2016–17 Annual Report, the 2017–18 Annual Report and the 2018 Interim Results Announcement*

(i) *For the year ended 31 March 2017 (i.e. FY2017)*

In FY2017, the Group recorded total revenue of approximately HK\$266.2 million, representing an increase of approximately 26.7% as compared to approximately HK\$210.0 million in FY2016. Such increase was mainly attributable to the commencement of newly awarded projects in Tuen Mun, Islands and Kwun Tong districts with contract sum of approximately HK\$173.9 million, contributing revenue of approximately HK\$66.0 million in FY2017 (representing approximately 24.8% of the total revenue of the Group in FY2017). The Group's gross profit increased by approximately 17.2% from approximately HK\$42.5 million in FY2016 to approximately HK\$49.8 million in FY2017, and the gross profit margin decreased by approximately 1.5 percentage points from approximately 20.2% in FY2016 to approximately 18.7% in FY2017. As advised by the Management, the decrease in gross profit margin was mainly due to the commencement of several projects in FY2017 which carried lower gross profit margin.

In FY2017, the Group recorded profit attributable to owners of the Company of approximately HK\$19.7 million, representing a decrease of approximately 30.5% as compared to approximately HK\$28.4 million in FY2016. Such decrease was primarily attributable to the increase in listing expenses from approximately HK\$2.8 million in FY2016 to approximately HK\$10.2 million in FY2017. Excluding the non-recurring listing expenses, the Group's profit would reach approximately HK\$29.9 million in FY2017.

The total assets of the Group increased by approximately HK\$72.7 million from approximately HK\$126.7 million as at 31 March 2016 to approximately HK\$199.4 million as at 31 March 2017. The total assets of the Group as at 31 March 2017 mainly comprised (i) bank balances and cash of approximately HK\$98.2 million (31 March 2016: approximately HK\$52.2 million); (ii) amounts due from customers for contract work of approximately HK\$43.2 million (31 March 2016: approximately HK\$19.8 million); (iii) plant and

equipment of approximately HK\$30.0 million (31 March 2016: approximately HK\$21.9 million); and (iv) trade and other receivables of approximately HK\$24.3 million (31 March 2016: approximately HK\$32.7 million).

The total liabilities of the Group decreased by approximately HK\$38.1 million from approximately HK\$81.5 million as at 31 March 2016 to approximately HK\$43.4 million as at 31 March 2017. The total liabilities of the Group as at 31 March 2017 mainly comprised (i) trade and other payables of approximately HK\$25.5 million (31 March 2016: approximately HK\$31.8 million); and (ii) obligations under finance leases of approximately HK\$10.3 million (31 March 2016: approximately HK\$6.9 million).

The equity attributable to owners of the Company increased by approximately 245.2% from approximately HK\$45.2 million as at 31 March 2016 to approximately HK\$156.0 million as at 31 March 2017 as a result of the net proceeds received from the listing of approximately HK\$97.0 million.

*(ii) For the year ended 31 March 2018 (i.e. FY2018)*

In FY2018, the Group recorded total revenue of approximately HK\$192.3 million, representing a decrease of approximately 27.7% as compared to approximately HK\$266.2 million in FY2017. Such decrease was mainly attributable to the keen competition in the construction industry resulting in fewer projects awarded in FY2018. The Group's gross profit decreased by approximately 52.9% from approximately HK\$49.8 million in FY2017 to approximately HK\$23.4 million in FY2018, and the gross profit margin decreased by approximately 6.5 percentage points from approximately 18.7% in FY2017 to approximately 12.2% in FY2018. As advised by the Management, the decrease in gross profit margin was mainly due to (i) increase in labour expenses, material cost and subcontracting fee incurred for various types of variation works performed and delay in work progress of a project in Shatin district; and (ii) increase in the usage of direct labour due to the category of the works performed by the Group in FY2018.

In FY2018, the Group recorded profit attributable to owners of the Company of approximately HK\$8.7 million, representing a decrease of approximately 55.9% as compared to approximately HK\$19.7 million in FY2017. Such decrease was mainly attributable to the decrease in revenue and gross profit margin as mentioned above.

The total assets of the Group increased by approximately HK\$8.7 million from approximately HK\$199.4 million as at 31 March 2017 to approximately HK\$208.1 million as at 31 March 2018. The total assets of the Group as at 31 March 2018 mainly comprised (i) amounts due from customers for contract work of approximately HK\$76.0 million (31 March 2017: approximately HK\$43.2 million); (ii) plant and equipment of approximately HK\$51.2 million (31 March 2017: approximately HK\$30.0 million); (iii) trade and other

receivables of approximately HK\$37.9 million (31 March 2017: approximately HK\$24.3 million); and (iv) bank balances and cash of approximately HK\$31.1 million (31 March 2017: approximately HK\$98.2 million).

The total liabilities of the Group remained stable and amounted to approximately HK\$43.4 million as at 31 March 2017 and 31 March 2018. The total liabilities of the Group as at 31 March 2018 mainly comprised (i) trade and other payables of approximately HK\$29.9 million (31 March 2017: approximately HK\$25.5 million); (ii) obligations under finance leases of approximately HK\$8.1 million (31 March 2017: approximately HK\$10.3 million); and (iii) deferred tax liabilities of approximately HK\$5.4 million (31 March 2017: approximately HK\$3.0 million).

The equity attributable to owners of the Company increased from approximately HK\$156.0 million as at 31 March 2017 to approximately HK\$164.7 million as at 31 March 2018, as a result of the profit of approximately HK\$8.7 million recorded in FY2018.

*(iii) For the six months ended 30 September 2018 (i.e. 1H2018)*

In 1H2018, the Group recorded total revenue of approximately HK\$76.9 million, representing a decrease of approximately 15.7% as compared to approximately HK\$91.1 million in 1H2017. Such decrease was mainly attributable to the keen competition in the industry leading to lesser number of sizable projects commenced. The Group recorded gross loss of approximately HK\$3.3 million in 1H2018 as compared to gross profit of approximately HK\$15.1 million in 1H2017. The change from gross profit to gross loss was mainly attributable to (i) additional direct costs incurred in a roadworks, drainage and duct works project in Islands District arising from additional work procedures, workers, machines and time being required to deal with the order instructed by the main contractor; and (ii) increase in labour cost, subcontracting fees and overhead costs in a site formation project in Shatin District due to delay in work progress as a result of changing working schedules as requested by the main contractor. In 1H2018, the Group recorded loss attributable to owners of the Company of approximately HK\$8.0 million as compared to profit of approximately HK\$7.9 million in 1H2017. Such change was mainly attributable to decrease in revenue and increase in cost of sales as mentioned above.

The total assets of the Group decreased by approximately HK\$31.2 million from approximately HK\$208.1 million as at 31 March 2018 to approximately HK\$176.9 million as at 30 September 2018. The total assets of the Group as at 30 September 2018 mainly comprised (i) contract assets of approximately HK\$98.3 million (31 March 2018: approximately HK\$95.7 million, under the reclassification of trade and other receivables of approximately HK\$21.8 million and amounts due from customers for contract work of approximately HK\$73.9 million after the adoption of HKFRS 15 Revenue from Contracts with

Customers); (ii) plant and equipment of approximately HK\$44.6 million (31 March 2018: approximately HK\$51.2 million); and (iii) restricted bank balances of approximately HK\$15.3 million (31 March 2018: approximately HK\$7.6 million).

The total liabilities of the Group decreased by approximately HK\$21.5 million from approximately HK\$43.4 million as at 31 March 2018 to approximately HK\$21.9 million as at 30 September 2018. The total liabilities of the Group as at 30 September 2018 comprised (i) trade and other payables of approximately HK\$16.9 million (31 March 2018: approximately HK\$29.9 million); and (ii) deferred tax liabilities of approximately HK\$5.0 million (31 March 2018: approximately HK\$5.4 million).

The equity attributable to owners of the Company decreased from approximately HK\$164.7 million as at 31 March 2018 to approximately HK\$155.0 million as at 30 September 2018, as a result of the loss of approximately HK\$8.0 million recorded in 1H2018.

*(iv) Analysis*

Having considered (i) the decreasing trend of the Group's profit attributable to owners of the Company for the last three financial years; (ii) the turnaround from net profit position in 1H2017 to net loss position in 1H2018; and (iii) the keen competition in the construction industry in Hong Kong, in which the Group operates, we consider that the Group's business prospect remains uncertain. Those Independent Shareholders who wish to retain some or all of the Shares should consider the past financial performance of the Group and the business prospects of the Group as detailed in the section headed "C. Business prospects of the Group" below, or otherwise are reminded to closely monitor the development of the Group and the publications of the Company (including the Composite Document) in this regard.

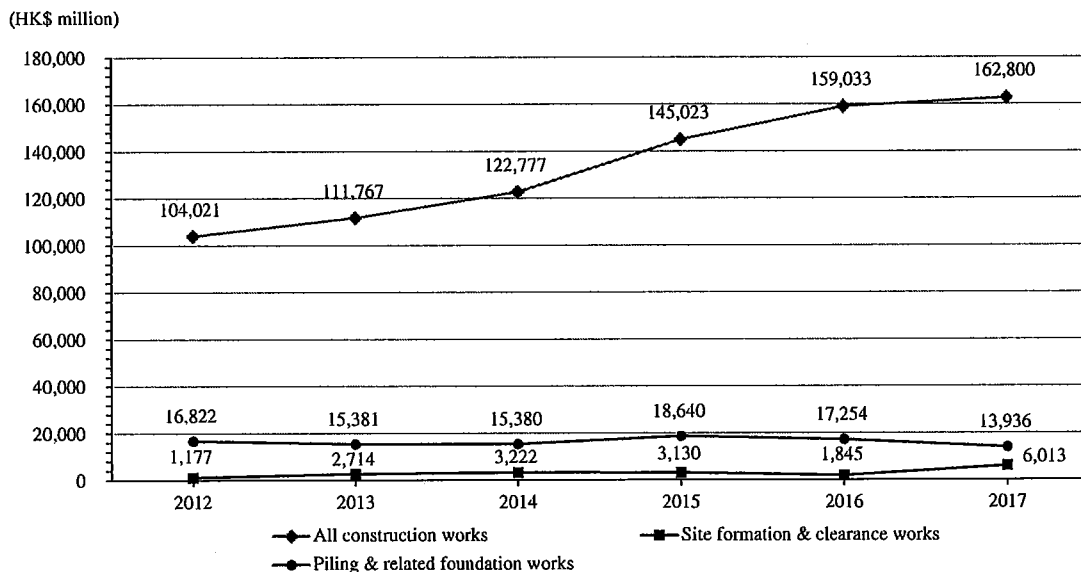
**C. Business prospects of the Group**

The Group is principally engaged in the provision of site formation works as a subcontractor in Hong Kong. The Group's direct customers are mostly main contractors of various types of infrastructural, commercial and residential buildings in Hong Kong. As disclosed in the 2017–18 Annual Report, there was a slowdown in growth of Government works with the launch of fewer large-scale infrastructure projects in year 2018–2019 as compared with that in year 2017–2018. Furthermore, the filibustering and long funding process in the Legislative Council during the last two years has intensified the competition among industry players, leading to the dilution of profit margin of projects. The Management expects that the prospect for the construction industry in Hong Kong will remain challenging.



We have conducted research on the construction industry (including site formation works) in Hong Kong through public domains. Set out below is the diagram showing the gross value of all construction works, site formation and clearance works, as well as piling and related foundation works in nominal terms performed by main contractors from 2012 to 2017:

**Chart 1: Gross value of all construction works, site formation and clearance works, as well as piling and related foundation works**



Source: Census and Statistics Department

Note: Construction works comprised (i) site formation & clearance; (ii) piling & related foundation works; (iii) erection of architectural superstructure; and (iv) civil engineering construction.

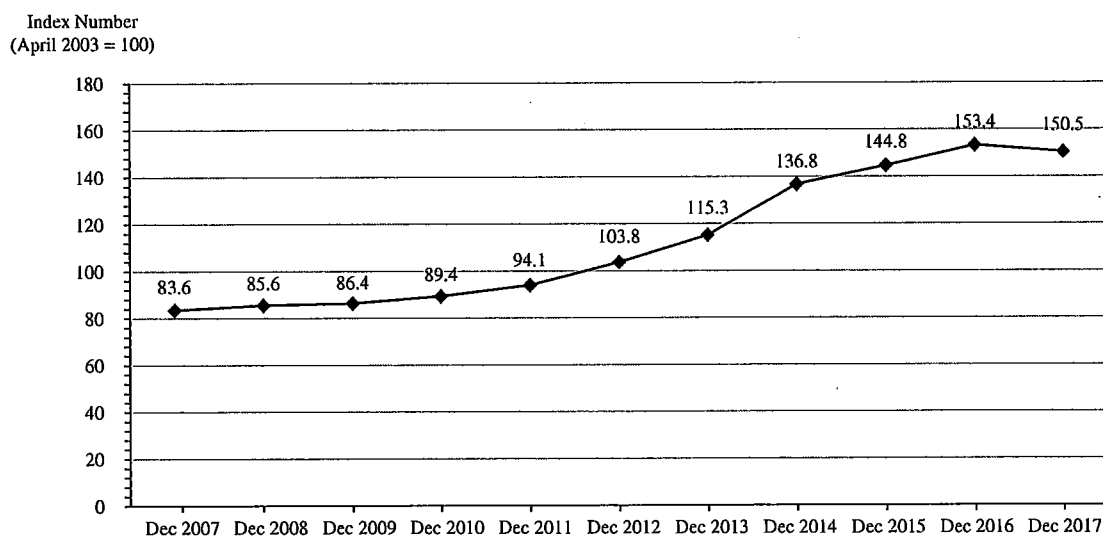
As illustrated in Chart 1 above, the gross value of all construction works in Hong Kong demonstrated an increasing trend from 2012 to 2017 and surged from approximately HK\$104,021 million in 2012 to approximately HK\$162,800 million in 2017, representing a compound annual growth rate (the “CAGR”) of approximately 9.4%. During the same period of time, the gross value of site formation and clearance works increased from approximately HK\$1,177 million to approximately HK\$6,013 million, representing a CAGR of approximately 38.6% while the gross value of piling and related foundation works decreased slightly from approximately HK\$16,822 million to approximately HK\$13,936 million. The expansion of the site formation and clearance industry was in line with that of the construction industry and the piling and related foundation works remained relatively stable. Nevertheless, due to the slowdown in growth of Government works with the launch of fewer large-scale infrastructure projects in year 2018–2019, the gross value of site formation works in Hong Kong experienced a drop of approximately 27.6% to approximately HK\$2,382 million for the first half of 2018, as compared to the corresponding period in the previous year.

Amid the slowdown in growth of governmental construction works, infrastructure and land resources are among the top priorities on the government's agenda in the 2018–2019 Budget of the Hong Kong government. The government has put forward an array of initiatives to stimulate the growth of the construction industry by not only injecting approximately HK\$85.6 billion to infrastructure projects but also devoting resources to produce approximately 100,000 units of public housing for the next five years which opens up numerous new business opportunities for the Group. The strong support from the government will possibly bring beneficial impacts to the sustainable growth of the construction industry in Hong Kong and also, the Group.

Moreover, the increase in number of competitors will lead to a more fierce competition in the industry. According to the Buildings Department of Hong Kong, there were 195 contractors registered as Specialist Contractors (Sub-register of Site Formation Works Category) as at the Latest Practicable Date, as compared to 179 registered contractors in May 2016. On the other hand, the number of registered subcontractors for earthwork under the Subcontractors Registration Scheme managed by the Construction Industry Council (a statutory body corporate established under the Construction Industry Council Ordinance (Chapter 587 of the Laws of Hong Kong)) also increased from 391 in May 2016 to 421 as at the Latest Practicable Date. The increasing number of market players will result in a more competitive tendering process, which may increase the difficulty for the Company to award new projects and thus adversely affect the performance of the Group.

In addition to the atmosphere of the construction industry and the keen competition among industry players, the continuing escalation of labour costs is considered to be another critical factor for the prospect of the Group. Based on our research from public domains, set out below is the diagram showing the index number of composite labour wage for building contracts of public sector from December 2007 to December 2017:

**Chart 2: Index number of composite labour wages for building contracts of public sector**



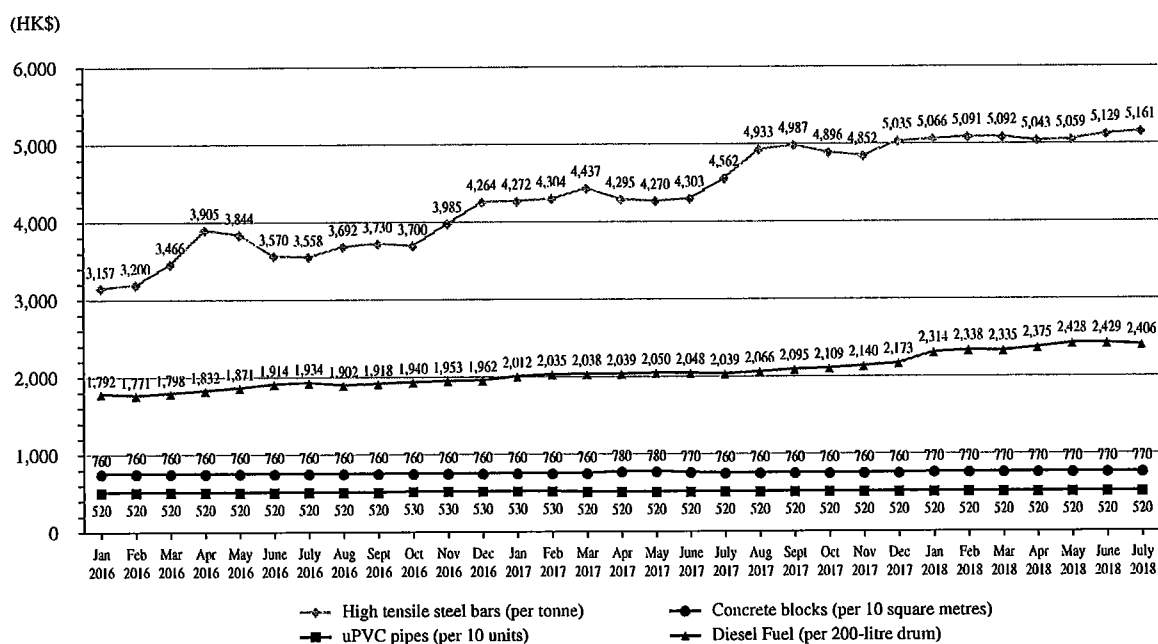
Source: Census and Statistics Department

Note: April 2003 is adopted as the base period (i.e. April 2003 = 100)

As set out in Chart 2 above, the index number of composite labour wages for building contracts of public sector increased from 83.6 in December 2007 to 150.5 in December 2017, representing a CAGR of approximately 6.1%. Having considered the fact that the Group's staff cost for FY2018 of approximately HK\$68.1 million represented over one third of the Group's total revenue, the continual escalation in labour cost would bring detrimental impacts to the financial performance of the Group in future.

Apart from the continuous rise in labour cost, the material cost also experienced an increase in recent years. Set out below is the chart showing the average wholesale prices of four common building materials used by the Group during its usual and ordinary course of business, namely high tensile steel bars, concrete blocks, uPVC pipes and diesel fuel.

**Chart 3: Average wholesale prices of selected building materials**



Source: Census and Statistics Department

As shown in the above chart, the average wholesale prices of high tensile steel bars and diesel fuel showed an upward trend which increased from HK\$3,157 per tonne and HK\$1,792 per 200-litre drum respectively in January 2016 to HK\$5,161 per tonne and HK\$2,406 per 200-litre drum respectively in July 2018, representing an increase of approximately 63.5% and approximately 34.3% respectively. On the other hand, the average wholesale prices of concrete blocks and uPVC pipes remained stable during the relevant period. The rise in material costs would inevitably increase the Group's expenses on building materials and would, in turn, affect the profitability of the Company in a negative way.

Notwithstanding the strong support from the government on the construction industry, after taking into consideration the keen competition among the construction industry players and the continual escalation in labour cost and material cost, we are of the opinion that there remains uncertain in the future performance of the Group.

## 2. Principal terms of the Offer

Emperor Capital, on behalf of the Offeror, makes the Offer to acquire all the Offer Shares on terms set out in the Composite Document on the following basis:

**For each Offer Share ..... HK\$0.641 in cash**

The Offer Price of HK\$0.641 per Offer Share is equal to (after rounding up) the purchase price per Sale Share under the Sale and Purchase Agreement which was arrived at after arm's length negotiations between the Offeror and the Vendor. The Offer is unconditional in all respects.

The Offer extends to all Independent Shareholders in accordance with the Takeovers Code. The Offer Shares to be acquired under the Offer shall be fully paid and free from all Encumbrances and together with all rights attaching to them, including the right to receive in full all dividends and other distributions, if any, declared, made or paid by reference to a record date on or after the date on which the Offer is made, i.e. the date of despatch of the Composite Document.

The Offer Price of HK\$0.641 per Offer Share represents:

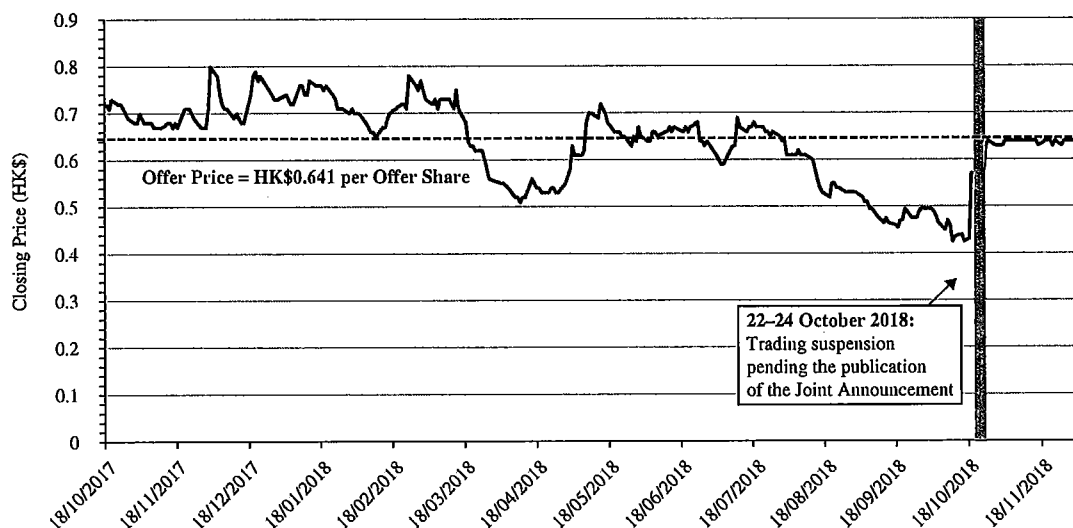
- (i) a premium of approximately 12.5% over the closing price of HK\$0.570 per Share as quoted on the Stock Exchange on 19 October 2018, being the Last Trading Day;
- (ii) a premium of approximately 39.4% over the average closing price of HK\$0.460 per Share as quoted on the Stock Exchange for the last five (5) consecutive trading days up to and including the Last Trading Day;
- (iii) a premium of approximately 40.3% over the average closing price of HK\$0.457 per Share as quoted on the Stock Exchange for the last ten (10) consecutive trading days up to and including the Last Trading Day;
- (iv) a premium of approximately 35.8% over the average closing price of HK\$0.472 per Share as quoted on the Stock Exchange for the last thirty (30) consecutive trading days up to and including the Last Trading Day;
- (v) a premium of approximately 198.1% over the audited consolidated net asset value of the Group of approximately HK\$0.215 per Share as at 31 March 2018 (being the date to which the latest audited consolidated annual results of the Group were made up), calculated based on the Group's audited consolidated net assets of approximately HK\$164,732,000 as at 31 March 2018 and 767,750,000 Shares in issue as at the Latest Practicable Date;

- (vi) a premium of approximately 217.5% over the unaudited consolidated net asset value of the Group of approximately HK\$0.202 per Share as at 30 September 2018, calculated based on the Group's unaudited consolidated net assets of approximately HK\$154,997,000 as at 30 September 2018 and 767,750,000 Shares in issue as at the Latest Practicable Date; and
- (vii) a premium of approximately 0.2% over the closing price of HK\$0.640 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

**A. Historical price 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 18 October 2017, being the twelve-month period prior to the Last Trading Day, up to and including the Latest Practicable Date (the "Review Period"):

**Chart 4: Share price performance during the Review Period**



Source: the website of the Stock Exchange ([www.hkex.com.hk](http://www.hkex.com.hk))

Note: Trading in the Shares was suspended from 22 October 2018 to 24 October 2018 pending the publication of the Joint Announcement.

As illustrated in Chart 4 above, during the Review Period, the closing price of the Shares ranged from the lowest closing price of HK\$0.425 per Share as recorded on 11 October 2018 and 16 October 2018 to the highest closing price of HK\$0.800 per Share as recorded on 1 December 2017, with an average price of approximately HK\$0.637 per Share. The Offer Price represents (i) a premium of approximately 50.8% over the lowest closing price of the Shares; (ii) a discount of approximately 19.9% to the highest closing price of the Shares; and (iii) a premium of approximately 0.6% over the average closing price of the Shares during the Review Period, respectively.

During the period from 18 October 2017 to 15 March 2018, the closing price of the Shares traded within the range from HK\$0.650 per Share to HK\$0.800 per Share. The closing price of the Shares then decreased from HK\$0.710 per Share on 16 March 2018 to HK\$0.510 per Share on 11 April 2018 and bounced back to HK\$0.720 per Share on 15 May 2018. We have discussed with the Management regarding the fluctuation of the Share price and were advised that save for (i) the interim results announcement of the Company for the six months ended 30 September 2017 published on 23 November 2017; and (ii) the profit warning announcement of the Company published on 11 May 2018, they are not aware of other particular reason that led to the fluctuation of the price of the Shares.

Thereafter, the closing price of the Shares exhibited a decreasing trend, reached the lowest closing price of HK\$0.425 per Share on 11 October 2018 and 16 October 2018, and closed at HK\$0.57 per Share on the Last Trading Day (i.e. 19 October 2018). We have discussed with the Management regarding the downward trend of the share price and were advised that save for the annual results announcement of the Company for the year ended 31 March 2018 published on 21 June 2018, they are not aware of other particular reason that led to the decreasing trend of the price of the Shares.

At the request of the Company, trading in the Shares was suspended from 22 October 2018 to 24 October 2018 pending the publication of the Joint Announcement. Following the resumption of trading, the closing price of the Shares increased by approximately 10.5% to HK\$0.630 per Share on 25 October 2018 (being the first trading day after the publication of the Joint Announcement) as compared to that of HK\$0.570 per Share on the Last Trading Day and the closing price of the Shares, in general, fluctuated within a narrow range during the period commencing from 25 October 2018 to the Latest Practicable Date (the “**Post-announcement Period**”). We consider that such rise in the closing price of the Shares may be associated with the Offer as the Offer Price represents a premium over the closing price of the Shares on the Last Trading Day. As at the Latest Practicable Date, the closing price of the Shares was HK\$0.640 per Share.

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.

**B. Historical trading volume of the Shares**

The following table sets out the trading volume of the Shares during the Review Period:

*Table 2: Trading volume of the Shares during the Review Period*

Month/period	Total trading volume (No. of Shares)	No. of trading days	Average daily trading volume (No. of Shares)	Percentage of the average daily trading volume to the total number of issued Shares (Note 2)	Percentage of the average daily trading volume to the number of issued Shares held by public Shareholders (Note 3)
October 2017 (From 18 October)	16,675,000	10	1,667,500	0.217%	0.582%
November 2017	24,305,000	22	1,104,773	0.144%	0.386%
December 2017	110,770,000	19	5,830,000	0.759%	2.035%
January 2018	56,725,000	22	2,578,409	0.336%	0.900%
February 2018	40,450,000	18	2,247,222	0.293%	0.784%
March 2018	216,814,000	21	10,324,476	1.345%	3.603%
April 2018	47,210,000	19	2,484,737	0.324%	0.867%
May 2018	102,090,000	21	4,861,429	0.633%	1.697%
June 2018	24,122,000	20	1,206,100	0.157%	0.421%
July 2018	51,675,000	21	2,460,714	0.321%	0.859%
August 2018	43,087,000	23	1,873,348	0.244%	0.654%
September 2018	10,930,000	19	575,263	0.075%	0.201%
October 2018 (Note 1)	80,247,936	18	4,458,219	0.581%	1.556%
— From 2 October 2018 to 19 October 2018	24,525,000	13	1,886,538	0.246%	0.658%
— From 25 October 2018 (being the first trading day after the publication of the Joint Announcement) to 31 October 2018	55,722,936	5	11,144,587	1.452%	3.889%
November 2018	30,055,000	22	1,366,136	0.178%	0.477%
December 2018 (up to the Latest Practicable Date)	1,265,000	2	632,500	0.082%	0.221%

Source: the website of the Stock Exchange ([www.hkex.com.hk](http://www.hkex.com.hk))

*Notes:*

- Trading in the Shares was suspended from 22 October 2018 to 24 October 2018 pending the publication of the Joint Announcement.
- The calculation is based on the average daily trading volume of the Shares divided by the total issued share capital of the Company as at the Latest Practicable Date (i.e. 767,750,000 Shares).
- The calculation is based on the average daily trading volume of the Shares divided by the number of Shares held by public Shareholders as at the Latest Practicable Date (i.e. 286,550,000 Shares).

As illustrated in Table 2 above, the average daily trading volume for the respective month/period during the Review Period ranged from approximately 575,263 Shares to approximately 10,324,476 Shares, representing approximately 0.075% to approximately 1.345% of the total number of issued Shares as at the Latest Practicable Date, or approximately 0.201% to approximately 3.603% of the total number of issued Shares held by public Shareholders as at the Latest Practicable Date.

During the period from 18 October 2017 until the publication of the Joint Announcement (the “**Pre-announcement Period**”), we noted that the average daily trading volume of the Shares in December 2017, March 2018 and May 2018 was relatively high. We have discussed with the Management regarding the relatively high trading volume of the Shares and were advised that save for the profit warning announcement of the Company published on 11 May 2018, they are not aware of other particular reason that led to the relatively high trading volume of the Shares.

Save for the particularly high daily trading volume of the Shares in December 2017, March 2018 and May 2018 as discussed above, the average daily trading volume of the Shares was relatively thin during the Pre-announcement Period. On 25 October 2018 (being the first trading day after the publication of the Joint Announcement), the trading volume of the Shares increased to approximately 34.1 million Shares and the average daily trading volumes increased from approximately 3.1 million Shares during the Pre-announcement Period to approximately 11.1 million Shares during the period from 25 October 2018 to 31 October 2018. We believe that the increase in trading volume of the Shares during the period from 25 October 2018 to 31 October 2018 was likely to be due to the market reaction to the announcement of the Offer. The average daily trading volume of the Shares then resumed to the relatively thin level of approximately 1.3 million Shares during the period from 1 November 2018 and up to the Latest Practicable Date.

It is uncertain as to whether there would be sufficient liquidity in the Shares for the Independent Shareholders to dispose of a significant number of the Shares in the open market without depressing the Share price. 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.

### *C. Comparison with other comparable companies*

In assessing the fairness and reasonableness of the Offer Price, we attempted to compare the Offer Price against the market valuation of other comparable companies using the price-to-earnings ratio (“**PE ratio**”) and the price-to-book ratio (“**PB ratio**”), which are commonly used valuation multiples. The Group is principally engaged in the provision of site formation works including (i) general earthworks (including soil and rock excavation, disposal of construction and demolition materials, backfilling and compaction for forming a new site or achieving designed formation level for later development); (ii) tunnel excavation works (including rock



excavation works for construction of tunnels through drill and break and/or drill and blast methods as well as construction of associated temporary tunnel support structures); (iii) foundation works (including excavation and lateral support works and associated structural works for construction of pile caps for commercial and residential building projects); and (iv) road and drainage works in Hong Kong (the “**Relevant Business**”). Therefore, we identified companies listed on the Main Board of the Stock Exchange based on the criteria that (i) over 80% of the revenue are generated from the Relevant Business in Hong Kong; and (ii) are of market capitalization of less than HK\$1 billion as at the Latest Practicable Date. We have identified an exhaustive list of 14 companies (the “**Comparable Companies**”) which met our above-mentioned selection criteria.

As each of the Comparable Companies has its own unique nature and characteristic in terms of, *inter alia*, business operation and environment, size, profitability and financial position, the comparison of the PE ratio and the PB ratio between the Comparable Companies and the Group may not represent an identical comparison. The Independent Shareholders should also note that the business operation and environment, size, profitability and financial position of the Comparable Companies are not equivalent to the Company and we have not conducted any in-depth investigation into the abovementioned business and affairs of the Comparable Companies. Nevertheless, we consider such comparison could be treated as an indication as to the reasonableness and fairness of the Offer Price, details of which are set out in the table below:

*Table 3: Details of the Comparable Companies*

Company name (Stock code)	Principal activities	Market capitalization as at the Latest Practicable Date (HK\$'000)	Profit/(loss) attributable to equity holders in the latest full financial year prior to the Latest Practicable Date (Note 1) (HK\$'000)	Net assets attributable to equity holders based on the latest published financial statements prior to the Latest Practicable Date (Note 2) (HK\$'000)	PE ratio (times)	PB ratio (times)
Ling Yui Holdings Limited (784)	Engaged in providing foundation works including excavation and lateral support (the “ELS”) works, pile cap works and pile construction, site formation works and other ancillary services such as road and drainage works for foundation projects in the private sector	320,000	15,187	109,540	21.07	2.92

Company name (Stock code)	Principal activities	Market capitalization as at the Latest Practicable Date (HK\$'000)	Profit/(loss) attributable to equity holders in the latest full financial year prior to the Latest Practicable Date (Note 1) (HK\$'000)	Net assets attributable to equity holders based on the latest published financial statements prior to the Latest Practicable Date (Note 2) (HK\$'000)	PE ratio (times)	PB ratio (times)
Win Win Way Construction Holdings Ltd. (994)	Engaged in the provision of construction services, which mainly include foundation works and ancillary services and general building works, and sales of piles	642,600	22,887	341,243	28.08	1.88
In Construction Holdings Limited (1500)	Engaged as a contractor in the foundation industry in Hong Kong, undertaking foundation works as well as associated works including demolition works, site formation works, ground investigation field works and general building works for local customers	269,750	23,018	236,244	11.72	1.14
Chinney Kin Wing Holdings Limited (1556)	Engaged in foundation constructions and ancillary services, and drilling and site investigation works for both public and private sectors in Hong Kong and overseas	372,000	81,606	411,861	4.56	0.90
Shun Wo Group Holdings Limited (1591)	Engaged in undertaking foundation works in Hong Kong	348,000	5,562	162,942	62.57	2.14
Sheung Yue Group Holdings Limited (1633)	Engaged in the provision of foundation works including piling construction, ELS works, pile cap construction, site formation and ancillary services in Hong Kong and Macau	205,425	(25,716)	206,184	N/A (Note 3)	1.00

Company name (Stock code)	Principal activities	Market capitalization as at the Latest Practicable Date (HK\$'000)	Profit/(loss) attributable to equity holders in the latest full financial year prior to the Latest Practicable Date (Note 1) (HK\$'000)	Net assets attributable to equity holders based on the latest published financial statements prior to the Latest Practicable Date (Note 2) (HK\$'000)	PE ratio (times)	PB ratio (times)
Yee Hop Holdings Limited (1662)	Engaged in the construction industry in Hong Kong focusing on the provision of foundation and other civil works and tunneling works	875,000	30,152	308,534	29.02	2.84
Wan Kei Group Holdings Limited (1718)	Engaged in provision of foundation construction and ground investigation services in Hong Kong	633,600	(70,247)	289,772	N/A (Note 3)	2.19
Wang Yang Holdings Limited (1735)	Engaged in the business of foundation works and superstructure building works in Hong Kong	623,040	10,728	188,568	58.08	3.30
Affluent Foundation Holdings Limited (1757)	Engaged in the provision of services related to foundation works in Hong Kong	330,000	16,049	178,666	20.56	1.85
Man King Holdings Limited (2193)	Engaged in providing civil engineering services in Hong Kong as a main contractor	331,656	7,007	239,135	47.33	1.39
Sam Woo Construction Group Limited (3822)	Engaged in the provision of foundation works and ancillary services in Hong Kong and Macau	302,400	5,519	671,697	54.79	0.45
Wing Chi Holdings Limited (6080)	Engaged in the foundation and site formation works and machinery leasing	494,888	11,989	180,696	41.28	2.74

Company name (Stock code)	Principal activities	Market capitalization as at the Latest Practicable Date (HK\$'000)	Profit/(loss) attributable to equity holders in the latest full financial year prior to the Latest Practicable Date (Note 1) (HK\$'000)	Net assets attributable to equity holders based on the latest published financial statements prior to the Latest Practicable Date (Note 2) (HK\$'000)	PE ratio (times)	PB ratio (times)
Dragon Rise Group Holdings Limited (6829)	Engaged in undertaking foundation works in Hong Kong as a subcontractor	296,400	51,028	287,126	5.81	1.03
				Maximum:	62.57	3.30
				Minimum:	4.56	0.45
				Average:	32.07	1.84
				Median:	28.55	1.87
The Company		492,128 (Note 4)	8,714	154,997	56.48	3.18

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

Notes:

1. Based on the figures of the respective Comparable Companies as published in the latest published annual reports.
2. Based on the figures of the respective Comparable Companies as published in the latest published annual reports or interim reports or interim results announcements.
3. The PE ratio is not available because the respective Comparable Companies recorded loss attributable to equity holders of the company in their respective latest full financial years.
4. The market capitalization of the Company is calculated based on the Offer Price and the number of issued Shares (i.e. 767,750,000 Shares) as at the Latest Practicable Date.

As set out in the Table 3 above, the PE ratios of the Comparable Companies ranged from approximately 4.56 times to approximately 62.57 times with an average of approximately 32.07 times and median of approximately 28.55 times. The PE ratio of the Company implied by the Offer Price of approximately 56.48 times is within the range and higher than the average and median of the PE ratios of the Comparable Companies.

The PB ratios of the Comparable Companies ranged from approximately 0.45 times to approximately 3.30 times with an average of approximately 1.84 times and a median of approximately 1.87 times. The PB ratio of the Company implied by the Offer Price of approximately 3.18 times is within the range and higher than the average and the median of the PB ratios of the Comparable Companies.

**D. Conclusion**

Having considered the factors set out in the above paragraphs that:

- (i) the Offer Price represents (a) a premium of approximately 0.2% over the closing price of HK\$0.640 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and (b) a premium of approximately 217.3% over the unaudited consolidated net asset value of the Group of approximately HK\$0.202 per Share as at 30 September 2018, calculated based on the Group's unaudited consolidated net assets of approximately HK\$154,997,000 as at 30 September 2018 and 767,750,000 Shares in issue as at the Latest Practicable Date;
- (ii) save for the particularly high average daily trading volume of the Shares in December 2017, March 2018 and May 2018 and during the period from 25 October 2018 (being the first trading day after the publication of the Joint Announcement) to 31 October 2018, the trading volume of Shares was low during the Review Period, and it is uncertain as to whether there would be sufficient liquidity in the Shares for the Independent Shareholders to dispose of a significant number of the Shares in the open market without depressing the Share price;
- (iii) there are likely uncertainties in the future performance of the Group as discussed in the paragraph headed "C. Business prospects of the Group" under the section headed "1. Business, financial performance and prospects of the Group";
- (iv) the PE ratio of the Company implied by the Offer Price of approximately 56.48 times is within the range and higher than the average and median of the PE ratios of the Comparable Companies; and
- (v) the PB ratio of the Company implied by the Offer Price of approximately 3.18 times is within the range and higher than the average and median of the PB ratios of the Comparable Companies,

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

### **3. Information on the Offeror and the intention of the Offeror in relation to the Group**

#### ***A. Information on the Offeror***

As stated in the "Letter from Emperor Capital" contained in the Composite Document, the Offeror is a company incorporated in British Virgin Islands, the shares of which are owned as to 40% by China Medival, 30% by World Communication and 30% by Xianghua International. China Medival, World Communication and Xianghua International are wholly owned by Mr. Zhang, Mr. Cao and Mr. Li respectively. Therefore, Mr. Zhang, Mr. Cao and Mr. Li are the ultimate beneficial owners of the Offeror and their biographical details are set out in the paragraph headed "C. Proposed Change of the Board Composition of the Company" below. As at the Latest Practicable Date, Mr. Zhang is the sole director of the Offeror. The Offeror, China Medival, World Communication and Xianghua International are investment holding companies.

Despite not having relevant experience in the business of the Group, Mr. Zhang, Mr. Cao and Mr. Li consider that investing in the Company could diversify and widen the investment portfolio of the Offeror.

Prior to Completion, each of the Offeror and its ultimate beneficial owners was Independent Third Party.

#### ***B. Future Intention of the Offeror and the Board Regarding the Group***

As stated in the "Letter from Emperor Capital" contained in the Composite Document, upon Completion, the Offeror became a controlling Shareholder. The Offeror intends to continue the principal business of the Group. The Offeror has no intention to discontinue the employment of any employees of the Group (save for changes in the composition of the Board) and dispose of or re-deploy the fixed assets of the Group other than in the ordinary course of business.

The Offeror will, following the close of the Offer, conduct a review of the operations of the Group in order to formulate a long-term strategy for the Group and explore other business or investment opportunities for enhancing its future development and strengthening its revenue base. Subject to the results of the review, the Offeror may explore other business opportunities for the Company and consider whether any asset disposals, asset acquisitions, business rationalisation, business divestment, fund raising, restructuring of the business and/or business diversification will be appropriate in order to enhance long-term growth potential of the Company. As at the Latest Practicable Date, the Offeror had not identified any such investment or business opportunities.

As stated in the "Letter from Emperor Capital" and the "Letter from the Board" contained in the Composite Documents, as at the Latest Practicable Date, each of the Offeror and the Board has no intention to enter nor has entered into any agreement, arrangement or understanding to (a) acquire and/or develop any new business; and (b) dispose of or downsize the existing businesses and/or any material operating assets of the Company.

Having considered the facts that (i) the Offeror had not laid down any detailed business plan of the Group as at the Latest Practicable Date; and (ii) the prospect for the construction industry in Hong Kong, in which the Group is engaged, will remain challenging (please refer to our analysis as disclosed in the paragraph headed “C. Business prospects of the Group” under the section headed “1. Business, financial performance and prospects of the Group” above for further details), we are of the opinion that there remains uncertain in the future performance of the Group.

**C. Proposed Change of the Board Composition of the Company**

As stated in the “Letter from Emperor Capital” contained in the Composite Document, the Board is currently made up of six Directors, comprising three executive Directors, being Mr. Tang, Mr. Kwok and Ms. Choi; and three independent non-executive Directors, being Mr. Cheung Wai Lun Jacky, Mr. Lee Chi Ming and Mr. Tang Chi Wai.

It is intended that, save for Mr. Cheung Wai Lun Jacky, Mr. Lee Chi Ming and Mr. Tang Chi Wai, who are existing independent non-executive Directors and do not involve in the day-to-day operation of the Group, other Directors will resign with effect from the earliest time permitted under the Takeovers Code. We were advised by the Management that Mr. Tang, Mr. Kwok and Ms. Choi will remain as the directors of the operating subsidiaries of the Group and will continue to oversee the operation of the respective subsidiaries of the Group. As at the Latest Practicable Date, each of Mr. Tang, Mr. Kwok and Ms. Choi had no intention to resign his position as the director of the operating subsidiaries of the Group. Therefore, we are of the view that the day-to-day operation of the Group will not be materially impacted by the change in composition of the Board.

The Offeror intends to nominate new Directors to the Board with effect from no earlier than the date of despatch of the Composite Document.

The Offeror currently intends to nominate four proposed new members to the Board, namely Mr. Zhang, Mr. Li, and Mr. Cao Jun as executive Directors, and Mr. Cao as the non-executive Director. Such appointment will only take effect after the date of despatch of the Composite Document in accordance with the requirements of the Takeovers Code and further announcement(s) will be made upon any changes to the composition of the Board in accordance with the requirements of the Listing Rules and the Takeovers Code as and when appropriate.

Set out below are the biographic details of the nominees for appointment as Directors.

*Executive Directors*

**Mr. Zhang**, who beneficially owns 40% of the Offeror and is the sole director of China Medival, aged 39, has been appointed as the director of China Century Group Limited (中國世紀集團有限公司) since 15 October 2018, a private company incorporated in Hong Kong principally engaged in securities

investment, and executive director of Century Investment Holding Group (Shenzhen) Limited\* (世紀投資控股集團(深圳)有限公司) since 27 October 2015, a private company established in the PRC which is principally engaged in the business of investment and corporate management consulting. On 12 March 2015, Mr. Zhang was appointed as a non-executive director of King Force Group Holdings Limited (stock code: 8315) and was then re-designated as an executive director on 21 April 2015 until his resignation on 27 November 2015. Mr. Zhang graduated from Beijing Institute of Business (北京工商學院) with a bachelor degree in business administration in July 2006.

**Mr. Li**, who beneficially owns 30% of the Offeror and is the sole director of Xianghua International, aged 44, has been appointed as the chairman of the board of Chengdu Iris Tourism Group Limited\* (成都艾瑞絲旅遊集團有限公司) since 1 December 2017, a company principally engaged in the business of tourism development, hotel management and food and beverages, and the director of International Daily News Inc\* (美國國際日報報業集團) since May 2017, a company principally engaged in the sales of newspapers through vendors and vending machines.

**Mr. Cao Jun**, aged 52, is currently the co-chair of the Chinese Overseas Artists Association and the co-chairman of the advisory board of the Nassau Museum of Art. Mr. Cao Jun has been appointed as a distinguished professor at the Research Institute of Traditional Chinese Painting of the School of Continuing Education of Renmin University of China (中國人民大學) since June 2017. Mr. Cao Jun graduated from The Shandong Institute of Mining and Technology\* (山東礦業學院) with a bachelor's degree in mining engineering in July 1989.

#### *Non-executive Directors*

**Mr. Cao**, who beneficially owns 30% of the Offeror and is the sole director of World Communication, aged 29, has been appointed as the chairman of Shenzhen City Tianyi Qiyuan Cultural Communication Limited\* (深圳市天一起源文化傳播有限公司) since 20 February 2016, a company principally engaged in the business of advertisement, corporate management consulting and events management. Mr. Cao obtained a diploma in administrative management from Central South University (中南大學) in January 2013 by way of distant learning.

Given that (i) all the executive Directors, being Mr. Tang, Mr. Kwok and Ms. Choi, will resign from the Company; (ii) the proposed new Executive Directors, being Mr. Zhang, Mr. Li and Mr. Cao Jun, do not have direct and relevant experience in the existing business of the Group (i.e. site formation works); and (iii) the Offeror had not laid down any detailed business plan of the Group as at the Latest Practicable Date, we consider that there are uncertainties in the future business development of the Group.

\* For identification purposes only



***D. Maintaining the Listing Status of the Company***

The Offeror intends to maintain the listing of the Shares on the Stock Exchange after the close of the Offer.

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 Shares, are held by the public, or if the Stock Exchange believes that:

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

then the Stock Exchange will consider exercising its discretion to suspend dealings in the Shares. In order to ensure that within a reasonable period after the close of the Offer, there will be not less than 25% of the Company's total number of issued Shares held by the public, the sole director of the Offeror and the new Directors to be appointed to the Board by the Offeror have jointly and severally undertaken to the Stock Exchange to take appropriate steps within a reasonable period following the close of the Offer to ensure that at least 25% of the total number of issued Shares will be held by the public.

**OPINION AND RECOMMENDATION**

Taking into consideration the above-mentioned principal factors and reasons, in particular the following:

- (i) the Group's financial performance remains uncertain as discussed in the paragraph headed "B. Financial information of the Group" under the section headed "1. Business, financial performance and prospects of the Group";
- (ii) save for the particularly high average daily trading volume of the Shares in December 2017, March 2018 and May 2018 and during the period from 25 October 2018 (being the first trading day after the publication of the Joint Announcement) to 31 October 2018, the trading volume of Shares was low during the Review Period, and it is uncertain as to whether there would be sufficient liquidity in the Shares for the Independent Shareholders to dispose of a significant number of the Shares in the open market without depressing the Share price;
- (iii) there are likely uncertainties in the future performance of the Group as discussed in the paragraph headed "C. Business prospects of the Group" under the section headed "1. Business, financial performance and prospects of the Group";
- (iv) the PE ratio of the Company implied by the Offer Price of approximately 56.48 times is within the range and higher than the average and median of PE ratios of the Comparable Companies; and

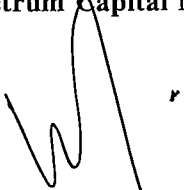
- (v) the PB ratio of the Company implied by the Offer Price of approximately 3.18 times is within the range and higher than the average and median of PB ratios of the Comparable Companies,

we consider that the terms of the Offer is fair and reasonable so far as the Independent Shareholders are concerned. On such basis, we recommend the Independent Board Committee to advise the Independent Shareholders to accept the Offer. In view of the volatility of market conditions, those Independent Shareholders who intend to accept the Offer are strongly reminded to closely monitor the market price and the liquidity of the Shares during the Offer Period and should consider selling their Shares in the open market, instead of 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 after having regard to the market price and the liquidity of the Shares.

For those Independent Shareholders who are attracted by and confident in the future prospects of the Group, given the background and future intention of the Offeror as detailed in the "Letter from Emperor Capital" contained in the Composite Document and notwithstanding that no detailed business plan has been laid down by the Offeror, they may consider to retain their Shares in full or in part. We would like to remind the Independent Shareholders that if they consider retaining their Shares or tendering less than all their Shares under the Offer, they should carefully consider the potential difficulties they may encounter in disposing of their investments in the Shares after the close of the Offer in view of the historical low 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 their investments in the Shares is subject to individual circumstances and investment objectives.

The Independent Shareholders are also reminded to read carefully the procedures for accepting 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  
**Astrum Capital Management Limited**

  
**Hidulf Kwan**  
*Managing Director*

  
**Rebecca Mak**  
*Director*

*Note:* Mr. Hidulf Kwan has been a responsible officer of Type 6 (advising on corporate finance) regulated activity under the SFO since 2006 and has participated in and completed various independent financial advisory transactions.

Ms. Rebecca Mak has been a responsible officer of Type 6 (advising on corporate finance) regulated activity under the SFO since 2011 and has participated in and completed various independent financial advisory transactions.