



紅日資本有限公司  
**RED SUN CAPITAL LIMITED**

15 December 2021

*To: The Independent Board Committee of Ban Loong Holdings Limited*

Dear Sir/Madam,

**MANDATORY CONDITIONAL CASH OFFER BY  
CHINA INTERNATIONAL CAPITAL CORPORATION  
HONG KONG SECURITIES LIMITED  
FOR AND ON BEHALF OF THE OFFEROR  
FOR ALL THE ISSUED SHARES  
(OTHER THAN THOSE ALREADY OWNED BY OR  
AGREED TO BE ACQUIRED BY  
THE OFFEROR AND/OR PARTIES ACTING IN CONCERT WITH IT)**

**INTRODUCTION**

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee in relation to the mandatory conditional cash offer being made by CICC on behalf of the Offeror to acquire all of the issued share capital of the Company (other than those already owned or agreed to be acquired by the Offeror and parties acting in concert with it). Details of which are set out in the Composite Document dated 15 December 2021, of which this letter forms a part. Capitalised terms used in this letter shall have the same meanings as defined in the Composite Document unless the context otherwise requires.

Reference is made to the Joint Announcement, in relation to among other things, the Offer. On 9 September 2021, New Huadu HK acquired 56,000,000 Shares (namely the Acquisition Shares, which comprise approximately 0.87% of the Shares in issue as at the Last Trading Day) for a consideration of HK\$0.285 per Share on the secondary market.

On 27 October 2021 (after trading hours of the Stock Exchange), the Offeror formally informed the Company with respect to the making of the Offer.

As a result of the Acquisition, the Offeror, together with parties acting in concert with it, became collectively interested in 1,964,025,360 Shares, representing approximately 30.46% of the total issued Shares immediately after the Acquisition and as at the Latest Practicable Date.

Pursuant to Rule 26.1 of the Takeovers Code, a mandatory conditional general offer in cash for all the issued Shares held by the Independent Shareholders was required to be made on or around the date of the Acquisition. As set out in the Letter from CICC in the Composite Document, CICC is making the Offer for and on behalf of the Offeror.

## **THE INDEPENDENT BOARD COMMITTEE**

The Board currently comprises four executive Directors, one non-executive Director and three independent non-executive Directors. In accordance with Rule 2.1 of the Takeovers Code, the Independent Board Committee comprising the sole non-executive Director and all the independent non-executive Directors, namely Mr. Fong For, Mr. Jiang Zhi, Mr. Leung Ka Kui, Johnny and Ms. Wong Chui San, Susan, has been established to advise the Independent Shareholders as to whether the terms of the Offer are fair and reasonable so far as the Independent Shareholders are concerned and whether the Independent Shareholders should accept the Offer.

We, Red Sun Capital Limited, have been appointed by the Company as the independent financial adviser to advise the Independent Board Committee in relation to the Offer. Our appointment 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 as to (i) whether the terms of the Offer are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) whether the Offer should be accepted.

## **OUR INDEPENDENCE**

As at the Latest Practicable Date, we were not associated with any of the Offeror or the Company or the controlling shareholder of the Offeror 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. In the previous two years, save for our appointment as the independent financial adviser in connection with connected transaction, details of which are set out in the circular of the Company dated 11 September 2020, we have not acted as an independent financial adviser to the independent board committee and the independent shareholders of the Company for any transaction.

Apart from normal professional fees paid or payable to us in connection with the current appointment as the independent financial adviser of the Company, no arrangements exist whereby we had received or will receive any fees or benefits from the Company or the Offeror, their respective controlling shareholders or any other party acting or presumed to be acting, in concert with any of them that could reasonably be regarded as relevant to our independence. Accordingly, we consider that we are independent pursuant to Rule 13.84 of the Listing Rules and Rule 2 of the Takeovers Code to act as the independent financial adviser to the Independent Board Committee in respect of the Offer.

## **BASIS OF OUR OPINION AND RECOMMENDATION**

In formulating our opinion, we have relied on the statements, information, opinions and representations contained in the Composite Document and the information and representations provided to us by the Directors and the management of the Company. We have reviewed, inter alia, the Joint Announcement, the Composite Document, the annual reports of the Company for the three years ended 31 March 2021, 31 March 2020 and 31 March 2019 and the unaudited interim results announcement of the Group for the six months ended 30 September 2021. We have also (i) discussed with the management of the Company regarding the businesses and future outlook of the Group; and (ii) researched and considered market data which we deemed relevant in arriving at our recommendation. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors. We have also assumed that all statements of belief, opinion and expectation made by the Directors in the Composite Document were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Composite Document, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors. We believe that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, carried out any independent verification of the information provided by the Directors and the management of the Company, nor have we conducted an independent investigation into the business and affairs of the Group.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Composite Document (other than information relating to the Offeror and parties acting in concert with it) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Composite Document (other than information relating to the Offeror and parties acting in concert with it) have been arrived at after due and careful consideration and there are no other facts not contained in the Composite Document, the omission of which would make any statement contained in the Composite Document misleading.

The sole director of the Offeror accepts full responsibility for the accuracy of the information contained in the Composite Document (other than the information relating to the Group) and confirms, having made all reasonable inquiries, that, to the best of his knowledge, opinions expressed in the Composite Document (other than the opinions expressed by the Directors) have been arrived at after due and careful consideration and there are no other facts not contained in the Composite Document, the omission of which would make any statement in the Composite Document misleading.

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

This letter is issued for the information of the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Offer, and except for its inclusion in the Composite Document, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent. Should any subsequent major changes occur during the Offer Period that would affect or alter our opinion, we will notify the Independent Board Committee as soon as possible in compliance with Rule 9.1 of the Takeovers Code.

## PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation, we have taken into consideration the following principal factors and reasons:

### 1. Information of the Group and the outlook of its principal businesses

#### (a) Historical financial information of the Group

The Group is principally engaged in money lending, trading of goods and commodities and Cannabidiol (“CBD”) isolate. Set out below are (i) the consolidated financial results of the Group for the three years ended 31 March 2019, 2020 and 2021; (ii) statement of financial position of the Group as at 31 March 2019, 31 March 2020 and 31 March 2021, which are extracted from the Company’s annual reports for the three years ended 31 March 2019 (the “2019 Annual Report”), 31 March 2020 (the “2020 Annual Report”) and 31 March 2021 (the “2021 Annual Report”), respectively; and (iii) the unaudited consolidated financial results of the Group for the six months ended 30 September 2020 and 2021 as set out in the unaudited interim results announcement of the Group for the six months ended 30 September 2021 (the “2021 Interim Results”).

#### *Financial performance of the Group*

	For the year ended 31 March			For the six months ended	
	2021	2020	2019	30 September	2020
	HK\$	HK\$	HK\$	HK\$	HK\$
	(audited)	(audited)	(audited)	(unaudited)	(unaudited)
<b>Revenue</b>	<b>1,216,714,366</b>	<b>1,162,153,635</b>	<b>910,081,910</b>	<b>457,632,630</b>	<b>614,479,742</b>
– Money lending	87,780,178	89,701,100	74,131,590	34,464,020	43,327,740
– Trading of goods and commodities	1,126,176,789	1,072,452,535	835,950,320	422,868,422	571,152,002
– Trading of CBD isolate	2,757,399	–	–	300,188	–
<b>Gross profit</b>	<b>96,395,162</b>	<b>108,083,580</b>	<b>87,004,954</b>	<b>38,703,227</b>	<b>49,888,423</b>
<b>(Loss)/Profit before tax</b>	<b>20,234,531</b>	<b>60,102,905</b>	<b>51,916,329</b>	<b>(91,561,085)</b>	<b>24,559,302</b>
<b>(Loss)/Profit attributable to owners of the Company</b>	<b>13,207,234</b>	<b>49,573,533</b>	<b>44,271,814</b>	<b>(83,424,656)</b>	<b>19,518,473</b>

*For the six months ended 30 September 2021 compared to the six months ended 30 September 2020*

As disclosed in the 2021 Interim Results, the revenue decreased by approximately HK\$156.9 million or 25.5% from approximately HK\$614.5 million for the six months ended 30 September 2020 to approximately HK\$457.6 million for the six months ended 30 September 2021. Such decrease was mainly attributable to the decrease in revenue of both money lending segment and trading segment of goods and commodities. The decrease in revenue of money lending segment was attributable to maturity of certain loans and there was no new lending made during the period while the decrease in revenue of trading segment was mainly due to the lower sales volume made by the Group's customers.

The Group's gross profit decreased by approximately HK\$11.2 million or 22.4% from approximately HK\$49.9 million for the six months ended 30 September 2020 to approximately HK\$38.7 million for the six months ended 30 September 2021. The Group's gross profit margin increased slightly from approximately 8.1% for the six months ended 30 September 2020 to approximately 8.5% for the six months ended 30 September 2021. The increase in profit margin was attributable to the decrease in revenue of trading segment of goods and commodities which generated relatively lower gross profit margin.

As set out in the 2021 Interim Results, as compared with the net profit attributable to owners of the Company of approximately HK\$19.5 million for the six months ended 30 September 2020, the Group recorded a net loss attributable to owners of the Company of approximately HK\$83.4 million for the six months ended 30 September 2021. Such decrease was mainly attributable to the increase in net allowance for expected credit losses of approximately HK\$90.3 million for certain loans and other receivables, the expected credit losses was mainly due to default of certain loans and other receivables from 11 independent borrowers during the period.

*For the year ended 31 March 2020*

As disclosed in the 2020 Annual Report, the Group's revenue increased by approximately HK\$252.1 million or 27.7% from approximately HK\$910.1 million for the year ended 31 March 2019 to approximately HK\$1,162.2 million for the year ended 31 March 2020. Such increase was mainly attributable to (i) increase in income from money lending segment due to the increase in number of new lending contributing for approximately HK\$82.7 million which in line with the increase in loan and interest receivables from approximately HK\$475.9 million as at 31 March 2019 to approximately HK\$531.9 million as at 31 March 2020; and (ii) increase in income from trading segment mainly due to the increase number in purchase orders placed by the Group's largest customer with revenue contribution from approximately HK\$139.0 million for the year ended 31 March 2019 to approximately HK\$322.3 million for the year ended 31 March 2020.

The Group's gross profit increased by approximately HK\$21.1 million or 24.3% from approximately HK\$87.0 million for the year ended 31 March 2019 to approximately HK\$108.1 million for the year ended 31 March 2020. The Group's gross profit margin decreased slightly from approximately 9.6% for the year ended 31 March 2019 to approximately 9.3% for the year ended 31 March 2020. The decrease in profit margin was due to the increase in revenue from the trading segment, which have a lower profit margin.

As set out in the 2020 Annual Report, net profit attributable to owners of the Company increased from approximately HK\$44.3 million for the year ended 31 March 2019 to approximately HK\$49.6 million for the year ended 31 March 2020, representing an increase of approximately 12.0%. Such increase was mainly attributable to the increase in the revenue and profit from money lending segment.

*For the year ended 31 March 2021*

As disclosed in the 2021 Annual Report, the Group's revenue increased by approximately HK\$54.6 million or 4.7% from approximately HK\$1,162.2 million for the year ended 31 March 2020 to approximately HK\$1,216.7 million for the year ended 31 March 2021. Such increase was principally attributable to the increase in revenue from trading of goods and commodities and CBD isolate segment mainly due to the increase in purchase orders placed by the Group's trading customers.

The Group's gross profit decreased by approximately HK\$11.7 million or 10.8% from approximately HK\$108.1 million for the year ended 31 March 2020 to approximately HK\$96.4 million for the year ended 31 March 2021. The Group's gross profit margin decreased from approximately 9.3% for the year ended 31 March 2020 to approximately 7.9% for the year ended 31 March 2021. The decrease in gross profit margin was mainly due to (i) the decrease of gross profit margin of the trading of goods and commodities due to the impact of Novel Coronavirus ("COVID-19") pandemic; and (ii) the comparatively low profit margin of trading of CBD isolate at the initial stage with relevant costs of sales incurred in attribute to commencement of trading of CBD. The Directors expect that the profit margin of trading of CBD will be improved after reaching economies of scale.

As set out in the 2021 Annual Report, net profit attributable to owners of the Company decreased from approximately HK\$49.6 million for the year ended 31 March 2020 to approximately HK\$13.2 million for the year ended 31 March 2021, representing a decrease of approximately 73.3%. Such decrease was mainly attributable to the (i) decrease in profit margin of trading segment due to the increase in selling and distribution expenses which intended to attract potential customers for boosting sales; (ii) an increase in net allowance for expected credit losses due to default of certain loans from five independent borrowers; and (iii) an increase in finance costs due to the issuance of the Convertible Bonds.

*Financial position of the Group*

	As at 31 March		As at 30 September	
	2021	2020	2019	2021
	HK\$	HK\$	HK\$	HK\$
	(audited)	(audited)	(audited)	(unaudited)
Total assets	1,442,604,318	966,998,351	868,645,961	1,373,049,239
Total liabilities	590,525,179	166,269,370	103,691,311	599,900,309
Net assets	852,079,139	800,728,981	764,954,650	773,148,930
Equity attributable to owners of the Company	851,155,911	799,808,772	764,029,770	772,225,946

According to the 2020 Annual Report, the Company's net assets reached approximately HK\$800.7 million as at 31 March 2020, comprising total assets of approximately HK\$967.0 million and total liabilities of approximately HK\$166.3 million. As at 31 March 2020, the total assets of the Group principally comprised loan and interest receivables of approximately HK\$531.9 million and other receivables, deposits and prepayments of approximately HK\$364.3 million. As at 31 March 2020, the total liabilities of the Group principally comprised bonds of approximately HK\$69.2 million and trade and other payables of approximately HK\$45.6 million. The equity attributable to owners of the Company amounted to approximately HK\$799.8 million as at 31 March 2020, representing an increase of approximately 4.7% as compared with the corresponding period.

According to the 2021 Annual Report, the Company's net assets reached approximately HK\$852.1 million as at 31 March 2021, comprising total assets of approximately HK\$1,442.6 million and total liabilities of approximately HK\$590.5 million. As at 31 March 2021, the total assets of the Group principally comprised other receivables, deposits and prepayments of approximately HK\$602.3 million, loan and interest receivables of approximately HK\$530.0 million and bank balances and cash of approximately HK\$251.2 million. As at 31 March 2021, the total liabilities of the Group principally comprised convertible bond of approximately HK\$478.7 million and contract liabilities of approximately HK\$33.9 million. The increase in total assets and total liabilities as compared with the corresponding period was in relation to the issue of Convertible Bonds in the principal amount of HK\$500 million. The equity attributable to owners of the Company amounted to approximately HK\$851.2 million as at 31 March 2021, representing an increase of approximately 6.4% as compared with the corresponding period.

According to the 2021 Interim Results, the Company's net assets reached approximately HK\$773.1 million as at 30 September 2021, comprising total assets of approximately HK\$1,373.0 million and total liabilities of approximately HK\$599.9 million. As at 30 September 2021, the total assets of the Group principally comprised other receivables, deposits and prepayments of approximately HK\$647.8 million, loan and interest receivables of approximately HK\$429.3 million and bank balances and cash of

approximately HK\$181.6 million. As at 30 September 2021, the total liabilities of the Group principally comprised Convertible Bonds of approximately HK\$494.5 million and trade and other payables of approximately HK\$85.2 million. The equity attributable to owners of the Company amounted to approximately HK\$772.2 million as at 30 September 2021, representing a decrease of approximately 9.3% as compared with the corresponding period due to the loss of the Group during the period.

**(b) *Prospect and outlook of the Group's principal activities***

*Outlook*

As stated in the 2021 Annual Report, for the money lending segment, subject to the market condition and the impact of COVID-19 pandemic, the Group would take a more prudent approach in approving new loan and loan renewals.

**(i) Trading of goods and commodities**

In previous years, the trading segment of the Group in the PRC successfully diversified its trading goods categories, expanding the product portfolio from refined edible oil and cosmetic products to sugar and personal care products. The revenue generated from the trading segment was approximately HK\$422.9 million for the six months ended 30 September 2021, of which the refined edible oil and sugar accounted for approximately 83.8% and the cosmetic products and personal care products accounted for approximately 16.2%, respectively.

*Refined edible oil and sugar*

According to the data published by the National Bureau of Statistics, the output of refined edible oil in the PRC in July 2021 was approximately 3.7 million tons, with a year-on-year decrease of approximately 18.6%, while the amount of import amounted to approximately US\$964 million, with a year-on-year increase of approximately 20.9%. Further, based on the information from the General Administration of Customs of the PRC, the amount of import for the refined edible oil recorded a relatively stable growth trend from 2016 to 2020. The stable output of refined edible oil demonstrates that there would be stable supply of refined edible oil which the Group can trade on such products.

According to the data published by the National Bureau of Statistics, the output of sugar crops in the PRC increased from approximately 1,137.9 million tons in 2017 to approximately 1,201.4 million tons in 2020, with a compound annual growth rate ("CAGR") of approximately 1.4% from 2017 to 2020. The stable output of sugar crops demonstrates that there would be stable supply of sugar crops which the Group can trade on such products.



In light of the relatively stable trend in the output of refined edible oil and sugar in the PRC which demonstrates there would be stable supply of such products, the prospect of the Group's trading of refined edible oil and sugar business is expected to remain stable.

#### *Cosmetics and personal care products*

The target customers of the Group in trading of cosmetics and personal care products are located in the PRC. According to an article published in Leading Industry Research in 2021<sup>1</sup>, based on a research report from Euromonitor, a global market research company providing strategic intelligence on industries, companies, economies and consumers around the world, the market size of the beauty and personal care market in the PRC increased from RMB205.1 billion in 2010 to RMB519.9 billion in 2020, representing a CAGR of 9.7%, whereas the beauty and personal care market in the PRC was affected by the COVID-19 pandemic in 2020, with the growth rate decreasing from approximately 14.7% in 2019 to approximately 7.2% in 2021.

Based on the above, in view of the ongoing COVID-19 pandemic and its impact on the beauty and personal care market in the PRC from the data as shown above, it is uncertain as to the extent of the impact of the COVID-19 pandemic on the total value of imports and exports of beauty and personal care products if COVID-19 pandemic outbreak in PRC happens again. The prospect of the Group's trading of cosmetics and personal care products business is expected to align with the general performance of the beauty and personal care market in the PRC with the uncertainty on the ongoing COVID-19 pandemic.

#### (ii) Money lending

The Group is principally engaged in money lending business in Hong Kong. As disclosed in the 2021 Annual Report, the Group mainly focuses on short term personal and corporate loans.

We noted from the 2021 Annual Report that the Group's net allowance for expected credit losses amounted to approximately HK\$11.3 million for the year ended 31 March 2021, representing an increase of approximately 14.8 times as compared with the year ended 31 March 2020, which was mainly due to the uncertainty arisen from COVID-19. In the six months ended 30 September 2021, the Group's net allowance for expected credit losses increase to approximately HK\$90.3 million resulting from the default of certain loans and other receivables from its customers who are independent third parties. It is uncertain as to the recoverability of the outstanding loan receivables in light of the (i) incident of the default of certain loans and other receivables; and (ii) increasing allowance for expected credit losses and the low reversal of allowance for expected credit losses in the years ended 31 March 2020 and 2021 and the six months ended 30 September 2021.

<sup>1</sup> <http://www.leadingir.com/datacenter/view/6528.html>

(iii) The Cannabidiol market

The Group commenced its international trading business of CBD isolate in Asia since January 2020. As disclosed in the unaudited interim results for the six months ended 30 September 2021, with much effort spent in the development of CBD end products, the management of the Company was expecting to see the debut of the Group's various skincare brands in early 2022 on a global basis, and the management of the Company expected that the CBD arm to be returning a sizeable revenue in 2022.

Based on the above, it is likely that the Group's trading of CBD will have a rapid growth but it is uncertain on whether the Group can achieve a turnaround in 2022 in light of the historical low profit margin.

Having considered the relatively stable trend in the output of refined edible oil and sugar in the PRC which relate to the Group's trading in refined edible oil and sugar, the Group is operating in relatively stable trading business. However, taking into consideration that (i) the uncertain recoverability of outstanding loan receivables in light of the (a) the incident of the default of certain loans and other receivables; and (b) increasing allowance for expected credit losses and the low reversal of allowance for expected credit losses; and (ii) the uncertain turnaround of the trading of CBD isolate segment, it is uncertain whether the profits expected to be generated from the Group's stable trading business as mentioned above will be sufficient to offset the potentially loss-making money lending and trading of CBD isolate segments of the Group.

## 2. Information on the Offeror

As stated in the “Letter from CICC” contained in the Composite Document, the Offeror is a company incorporated in Hong Kong with limited liability, and which is principally engaged in investment holding. It is an indirect wholly-owned subsidiary of YNBY Group Co. The sole director of the Offeror is Li Yi.

YNBY Group Co. is the existing largest shareholder of the Company holding 29.59% of the issued Shares as at the Latest Practicable Date. “Yunnan Baiyao” (雲南白藥) is a China well-known trademark in China. YNBY Group Co. is amongst the first batch of State Innovative Enterprises, with its A shares being listed on Shenzhen Stock Exchange with stock code: 000538. The principal businesses of the YNBY Group Co. include pharmaceutical products, health products, Chinese medicine resources and pharmaceutical logistics.

Mr. Chen Fashu is a director and the co-chairman of YNBY Group Co., and together with parties acting in concert with him, holds approximately 25.04% of YNBY Group Co. Mr. Chen Fashu is currently the chairman and legal representative of New Huadu Industrial.

One of the principal parties acting in concert with the Offeror New Huadu HK is a company incorporated in Hong Kong with limited liability, which is principally engaged in investment holding. New Huadu HK is wholly-owned by New Huadu Industrial, a company established in the PRC with limited liability, which has a diversified business portfolio across various industries including industrial investment, provision of investment management and advisory services, wholesale of pre-packaged foods and bulk-purchase foods, tourism, mining, and real estate. New Huadu Industrial is in turn held as to approximately (a) 16.82% by Xiamen Huadu, which is wholly-owned by Mr. Chen Fashu; (b) 76.87% by Mr. Chen Fashu; and (c) 6.31% by other shareholders, such other shareholders being independent third parties. Mr. Chen Fashu is the ultimate controlling shareholder of New Huadu HK.

Mr. Chen Fashu, New Huadu HK, Xiamen Huadu, New Huadu Industrial and YNBY Group Co. directly or indirectly hold Shares, and are presumed to be parties acting in concert under the Takeovers Code. As such, immediately following the Acquisition, the Offeror, together with parties acting in concert with it, is interested in 1,964,025,360 Shares, representing approximately 30.46% of the total issued Shares as at the Latest Practicable Date.

The Offeror confirms that, as at the Latest Practicable Date, save for the 1,908,025,360 Shares and the Convertible Bonds held by YNBY Group Co. and the Acquisition Shares held by New Huadu HK, the Offeror and parties acting in concert with it do not hold, control or have direction over any Shares, convertible securities, warrants or options and do not have, control or have direction over any other interests in the issued Shares or voting rights of the Company.

### **3. The Offeror's intentions regarding the Company**

As stated in the "Letter from CICC" contained in the Composite Document, it is the intention of the Offeror, together with parties acting in concert with it, that the Group will continue to operate its business in substantially its current state. Other than 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, together with parties acting in concert with it, has no intention to (i) discontinue the employment of the employees or (ii) dispose of or re-deploy the assets of the Group other than those in its ordinary course of business. The Offeror considers that completion of the Offer would reinforce the status of YNBY Group as the single largest shareholder and controlling shareholder of the Company and as such strengthen the strategic synergy between YNBY Group and the Group as well as strengthen the international profile of YNBY Group. Having regard to the Group's extensive experience in commodities trading and established sales channels, the Offeror believes that YNBY Group and the Group would be able to further pursue mutually beneficial business development opportunities through cooperation, while allowing YNBY Group to realise return from its investment in the Group.

We noted that the Offeror is an indirect wholly-owned subsidiary of YNBY Group Co. and YNBY Group Co. is the existing largest shareholder of the Company, and amongst the first batch of State Innovative Enterprises with its A shares being listed on Shenzhen Stock Exchange. Given that YNBY Group Co. and its subsidiaries remain to be the single largest shareholder of the Company before and after the Offer, we expect that there would not be a substantial change in the business and operation of the Group as a direct result of the Offer.

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

Pursuant to the Listing Rules, if, upon closing 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: (i) a false market exists or may exist in the trading of the Shares or (ii) there are insufficient Shares in public hands to maintain an orderly market, then the Stock Exchange will consider exercising its discretion to suspend trading in the Shares until a level of sufficient public float is attained. The Offeror considers that the appropriate actions to be taken after the close of the Offer shall include placing down of sufficient number of accepted Shares by the Offeror and/or issue of additional Shares by the Company for this purpose. The Company and the Offeror will issue a separate announcement as and when necessary in this regard.

The Offeror does not intend to privatize the Company by availing itself of any powers of compulsory acquisition of the remaining Shares not acquired under the Offer after the close of the Offer.

**5. Principal terms of the Offer**

On 4 November 2021, the Offeror and the Company jointly announced that, among other things, on September 2021, New Huadu HK acquired 56,000,000 Shares for a consideration of HK\$0.285 per Share on the secondary market. New Huadu HK is wholly-owned by New Huadu Industrial, which is held as to approximately 93.69% by Mr. Chen Fashu, through his shareholding in Xiamen Huadu and through such shareholding held by him in his own capacity. Mr. Chen Fashu is a director and co-chairman of YNBY Group Co. and together with parties acting in concert with him, holds approximately 25.04% of YNBY Group Co. The Offeror is an indirect wholly-owned subsidiary of YNBY Group Co. Accordingly, the Offeror, Mr. Chen Fashu, New Huadu HK, Xiamen Huadu, New Huadu Industrial and YNBY Group Co. are presumed to be parties acting in concert under the Takeovers Code. As a result of the Acquisition, the Offeror, together with parties acting in concert with it, became collectively interested in 1,964,025,360 Shares, representing approximately 30.46% of the total issued Shares immediately after the Acquisition and as at the date of the Joint Announcement, such that the Offeror was required to make the mandatory conditional general offer in cash for all the issued Shares held by the Independent Shareholders pursuant to Rule 26.1 of the Takeovers Code.

CICC is making the Offer for and on behalf of the Offeror on the terms set out in the Composite Document in compliance with the Takeovers Code on the following basis:

**For each Offer Share ..... HK\$0.285 in cash**

The Offer Price of HK\$0.285 per Offer Share under the Offer is equivalent to the purchase price per Share paid by New Huadu HK under the Acquisition.

**The Offeror will not increase the Offer Price as set out above.**

The Offer Price of HK\$0.285 per Offer Share represents:

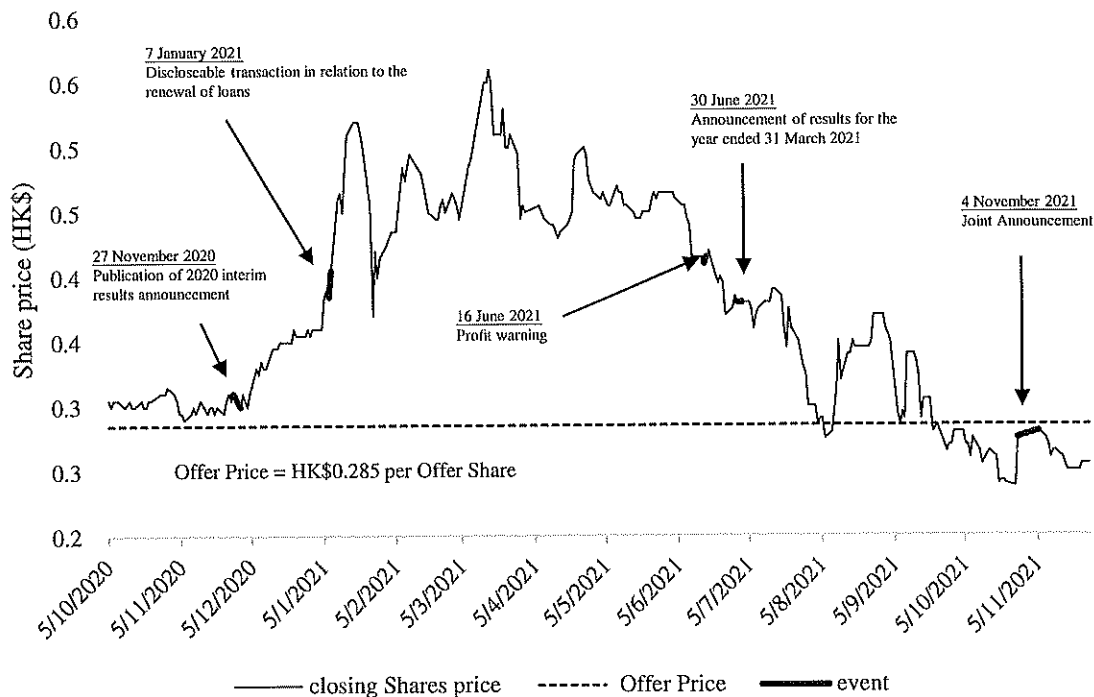
- (a) a discount of approximately 1.72% to the closing price of HK\$0.290 per Share as quoted on the Stock Exchange on 9 September 2021, being the date of the Acquisition;
- (b) a premium of approximately 3.64% over the closing price of HK\$0.275 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (c) a premium of approximately 15.38% over the average closing price of approximately HK\$0.275 per Share based on the daily closing prices as quoted on the Stock Exchange for the 5 trading days immediately prior to and including the Last Trading Day;
- (d) a premium of approximately 3.26% over the average closing price of approximately HK\$0.276 per Share based on the daily closing prices as quoted on the Stock Exchange for the 30 trading days immediately prior to and including the Last Trading Day;

- (e) a discount of approximately 5.32% over the average closing price of approximately HK\$0.301 per Share based on the daily closing prices as quoted on the Stock Exchange for the 60 trading days immediately prior to and including the Last Trading Day;
- (f) a discount of approximately 12.58% over the average closing price of approximately HK\$0.326 per Share based on the daily closing prices as quoted on the Stock Exchange for the 90 trading days immediately prior to and including the Last Trading Day;
- (g) a discount of approximately 20.17% over the average closing price of approximately HK\$0.357 per Share based on the daily closing prices as quoted on the Stock Exchange for the 120 trading days immediately prior to and including the Last Trading Day;
- (h) a discount of approximately 28.03% over the average closing price of approximately HK\$0.396 per Share based on the daily closing prices as quoted on the Stock Exchange for the 180 trading days immediately prior to and including the Last Trading Day;
- (i) a premium of approximately 115.91% over the audited consolidated net asset value (“NAV”) attributable to the Shareholders per Share of approximately HK\$0.132 as at 31 March 2021, based on a total of 6,448,152,160 Shares in issue as at the Latest Practicable Date and the audited consolidated net asset value attributable to owners of the Company of approximately HK\$851,155,911 as at 31 March 2021;
- (j) a premium of approximately 137.50% over the unaudited consolidated NAV attributable to the Shareholders per Share of approximately HK\$0.120 as at 30 September 2021, based on a total of 6,448,152,160 Shares in issue as at the Latest Practicable Date and the unaudited consolidated net asset value attributable to owners of the Company of approximately HK\$772,225,946 as at 30 September 2021; and
- (k) a premium of approximately 9.62% over the closing price of HK\$0.260 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

As illustrated above, the Offer Price represents a premium to the closing prices of the Shares on the Stock Exchange shortly after the Last Trading Day and the latest audited consolidated NAV attributable to the Shareholders per Share.

## 6. Historical Share price performance

Set out below is a chart showing the daily closing prices of the Shares as quoted on the Stock Exchange during the period commencing from 1 October 2020 and up to and including the Latest Practicable Date (the “**Review Period**”), which we consider to be reasonably long enough to illustrate the relationship between the historical trend of the closing price of the Share and the Offer:



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

During the Review Period, the closing prices of the Shares ranged from HK\$0.238 as recorded on 25 October 2021 and 26 October 2021 to HK\$0.56 per Share as recorded on 17 March 2021, with an average closing Share price of approximately HK\$0.370 per Share. The Offer Price of HK\$0.285 represented (i) a premium of approximately 19.74% to the lowest closing price per Share; (ii) a discount of approximately 49.11% to the highest closing price of the Shares; and (iii) a discount of approximately 22.97% to the average closing price per Share during the Review Period.

It is noted from the graph above that the closing price of the Shares exhibited, in general, an upward trend from the commencement of the Review Period to 17 March 2021. The closing price of the Share increased from a low of HK\$0.29 per Share on 6 November 2020 to a high of HK\$0.52 per Share as at 18 January 2021. We have discussed with the Management regarding the upward trend of the Share price trend and were advised that save for the interim results announcement for the six months ended 30 September 2020 published on 27 November 2020 and the renewal of loans to a connected person due to the satisfactory payment records in the past and repayment ability of the connected person which stable interest income is expected to be

generated from the renewal of the loans to the connected person, they are not aware of other particular reason that led to the increase in the price of the Shares.

The closing price of the Shares then exhibited, in general, a downward trend from 18 March 2021 to the Last Trading Day. The Share price decreased from HK\$0.52 per Share as at 18 January 2021 to HK\$0.37 per Share as at 26 January 2021. We have discussed with the Management regarding the downward trend of the Share price and were advised that save for the profit warning announcement on 16 June 2021 and the annual results announcement for the year ended 31 March 2021, they are not aware of other particular reason that led to the decline in the price of the Shares.

Based on the aforesaid, we consider that the Share Price has, in general, reflected the financial performance of the Group.

We consider that the recent trading price and volume of the Share are more relevant factors in accessing the fair and reasonableness of the Offer. Taking into account of the historical trading prices of the Share as listed above, we noted that the Offer Price represented (i) a premium of approximately 115.91% over the audited consolidated NAV attributable to the Shareholders per Share as at 31 March 2021; and (ii) a premium of approximately 137.50% over the unaudited consolidated NAV attributable to the Shareholders per Share as at 30 September 2021. Given over 95% of the total assets as at 31 March 2021 and 30 September 2021 were current assets which were mainly loan and interest receivables, other receivables, deposits and prepayments and bank balances and cash, which are readily realisable into cash, we consider that the NAV attributable to the Shareholders per Share may also represent a fair comparison to the cash value as represented by the Offer.

Although the Offer Price itself represents a discount of approximately 22.97% to the average closing price of approximately HK\$0.370 per Share during the Review Period, having considered that (i) the Offer Price represents a premium of approximately 115.91% over the audited NAV of approximately HK\$0.132 per Share as at 31 March 2021; (ii) the closing price of the Shares has indicated an overall downward trend before the publication of the Joint Announcement; and (iii) there is no guarantee that the trading price of the Shares will sustain at a level higher than the Offer Price during and after the Offer Period based on our view of uncertainty on the Group's future profitability as mentioned in the above section headed "1. Information of the Group and outlook of its principal businesses", we consider the Offer Price is fair and reasonable so far as the Independent Shareholders are concerned.



## 7. Liquidity of the Shares

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

Month	Total monthly trading volume of the Shares (Shares)	Number of trading days	Average daily trading volume of the Shares (Approximate Shares)	Percentage of average daily trading volume to total number of Shares in issue	Percentage of average daily trading volume to total number of Shares in issue held by the public (Note 2)
<b>Review Period</b>					
October 2020	44,287,000	18	2,460,389	0.04%	0.07%
November 2020	95,590,250	21	4,551,917	0.07%	0.12%
December 2020	349,808,000	22	15,900,364	0.25%	0.43%
January 2021	817,559,000	20	40,877,950	0.63%	1.11%
February 2021	393,465,000	18	21,859,167	0.34%	0.59%
March 2021	659,296,000	23	28,665,043	0.44%	0.78%
April 2021	395,877,050	19	20,835,634	0.32%	0.56%
May 2021	283,034,000	20	14,151,700	0.22%	0.38%
June 2021	328,300,000	21	15,633,333	0.24%	0.42%
July 2021	208,246,000	21	9,916,476	0.15%	0.27%
August 2021	234,852,045	22	10,675,093	0.17%	0.29%
September 2021	351,356,000	21	16,731,238	0.26%	0.45%
4 October 2021 to 27 October 2021 (Note 1)	170,144,000	16	10,634,000	0.16%	0.29%
5 November 2021 to 30 November 2021	191,114,000	18	10,617,444	0.16%	0.29%
1 December 2021 up to the Latest Practicable Date	30,122,000	8	3,765,250	0.06%	0.10%

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

### Notes:

1. The trading of Shares was suspended from 28 October 2021 to 4 November 2021 prior to the release of the Joint Announcement.
2. Shares held by the public are based on information set out in the section headed "Shareholding structure of the Company" in the Letter from the Board.

As illustrated in the table above, the average daily trading volume of the Shares during the Review Period ranged from approximately 2,460,389 Shares to approximately 40,877,950 Shares, representing approximately 0.04% to approximately 0.63% of the total number of the Shares in issue as at the Latest Practicable Date.

The average daily trading volume of the Shares during the Review Period was relatively thin during the Review Period.

Given the thin historical average daily trading volume of the Shares, it is uncertain that the overall liquidity of the Shares could be enhanced and that there would be sufficient liquidity in the Shares for the Independent Shareholders to dispose of a significant number of Shares in the open market without exerting a downward pressure on the Share price. We, therefore, consider that the Offer provides the Independent Shareholders with an assured exit if they wish to realise their investments in the Shares, particularly for those who hold a large volume of the Shares.

## 8. Comparable companies analysis

In assessing the fairness and reasonableness of the Offer Price, we have conducted a search of Hong Kong companies actively listed on the Main Board of the Stock Exchange which were principally engaged in trading of goods and commodities (mainly refined edible oil and sugar) for their latest financial year, given that we were unable to identify a company that is principally engaged in trading of goods and commodities (mainly refined edible oil and sugar), we therefore extend the scope to trading or manufacturing flavours or fragrances or food additives contributing revenue of more than 50% for their latest financial year (“**Selection Criteria A**”). We have identified five companies (“**Comparable Companies Group A**”) which are set out in the table below and they represent an exhaustive list of companies comparable to the Company based on the Selection Criteria A. With further reference to the 2021 Annual Report, we noted that (i) the money lending segment generated segment profit of approximately HK\$73.5 million as compared with segment profit of approximately HK\$7.6 million generated from the trading of goods and commodities; and (ii) the segment assets for money lending segment and trading of goods and commodities segment accounted for approximately HK\$614.2 million and HK\$652.9 million, respectively. As such, we extend our search criteria to include Hong Kong companies actively listed on the Main Board of the Stock Exchange which were principally engaged in money lending related business contributing revenue of more than 50% for their latest financial year (“**Selection Criteria B**”). We have identified eleven companies (“**Comparable Companies Group B**”) which are set out in the table below and they represent an exhaustive list of companies comparable to the Company based on the Selection Criteria B.

Nevertheless, it should be noted that the operations and prospects of the Comparable Companies Group A and Comparable Companies Group B are not the same as the Group and we have not conducted any investigation into the businesses, operations and prospects of the Comparable Companies Group A and Comparable Companies Group B. In addition, given that we were unable to identify comparable companies that is principally engaged in trading of goods and commodities (mainly refined edible oil and sugar), we consider that the Comparable Companies Group A and Comparable Companies Group B should not be considered as directly comparable companies to the Company. Accordingly, the Comparable Companies Group A and Comparable Companies Group B and our analysis therefrom serve as an additional reference when considering the Offer and are for illustrative purposes only. Set out below is the information of the Comparable Companies Group A and Comparable Companies Group B.

To assess the fairness and reasonableness of the Offer Price, we have considered the price-to-book ratio (“**P/B Ratio**”) and price-to-earnings ratio (“**P/E Ratio**”), which are the two most commonly adopted valuation benchmarks in comparing the valuation of a company’s shares, in evaluating the Shares, as implied by the Offer Price, against those of the Comparable Companies Group A and Comparable Companies Group B. In assessing the P/B Ratio of the Group under the Offer, we have taken into consideration the implied market capitalisation of the total value of the Group under the Offer of approximately HK\$1,837.7 million (the “**Implied Market Capitalisation**”), which is derived from multiplying the Offer Price of HK\$0.285 per Share by the total number of issued Shares of 6,448,152,160 as at the Latest Practicable Date. In determining the implied P/B Ratio under the Offer (the “**Implied P/B Ratio**”), we have divided the Implied Market Capitalisation by the audited total equity attributable to owners of the Company of approximately HK\$852.1 million as at 31 March 2021 and have obtained the Implied P/B Ratio of approximately 2.2 times. In determining the implied P/E Ratio under the Offer (the “**Implied P/E Ratio**”), we have divided the Implied Market Capitalisation by the audited profit for the year attributable to the owners of the Company of approximately HK\$13.2 million for the year ended 31 March 2021 and have obtained the Implied P/E Ratio of approximately 139.2 times. The following table sets out (i) the P/B Ratio and P/E Ratio of the Comparable Companies Group A and Comparable Companies Group B based on their closing share prices as at the Last Trading Day and their latest published financial information; and (ii) the Implied P/B Ratio of the Group calculated based on the Offer Price and its 2021 Annual Report.

Company name (Stock code)	Principal business(es)	Share price (Note 1) HK\$	Market capitalisation (Note 1) HK\$ million	P/B Ratio (Note 2) times	P/E Ratio (Note 3) times
<b>Comparable Companies Group A</b>					
Huabao International Holdings Limited (336)	The R&D, production, distribution and sales of flavours and fragrances, tobacco raw materials, aroma raw materials and condiment products in the PRC	15.04	46,741.9 (Note 6)	3.3 (Note 6)	94.1 (Note 6)
Lam Soon (Hong Kong) Limited (411)	The manufacturing, trading and processing of food and home care products in Hong Kong, the PRC and Macau	15.60	3,796.3	1.3	10.6
Fufeng Group Limited (546)	Manufacturing and sales of food additives products, animal nutrition products, high-end amino acid products, colloid products and other products	2.76	6,992.8 (Note 6)	0.5 (Note 6)	9.4 (Note 6)

Company name (Stock code)	Principal business(es)	Share price (Note 1) HK\$	Market capitalisation (Note 1) HK\$ million	P/B Ratio (Note 2) times	P/E Ratio (Note 3) times
S&P International Holding Limited (1695)	Manufacturing and distribution of coconut based food and beverage products	0.073	78.8 (Note 7)	3.5 (Note 7)	N/A
Vedan International (Holdings) Limited (2317)	The production of fermentation-based amino acids, food additive products and cassava starch based industrial products.	0.79	1,203.0 (Note 8)	0.5 (Note 8)	9.3
			Average	1.8	30.9
			Minimum	0.5	9.3
			Maximum	3.5	94.1
<b>Comparable Companies Group B</b>					
Sun Hung Kai & Co. Limited (86)	Provision of consumer, SME and other financing, structured and specialty financing, mortgage loans financing and portfolio investments	4.04	7,983.9	0.3	3.1
Upbest Group Limited (335)	Securities broking, futures broking, securities margin financing, money lending, corporate finance advisory, assets management, precious metal trading and properties investment	0.89	2,387.3	0.9	51.7
Power Financial Group Limited (397)	Provision of financial services, provision of loan financing, trading of healthcare related products and assets investment	0.164	456.5	0.3	10.3
Greater China Financial Holdings Limited (431)	Securities brokerage, asset management, insurance brokerage, loan financing, industrial property development business and general trading	0.185	1,438.5	2.6	N/A

Company name (Stock code)	Principal business(es)	Share price (Note 1) HK\$	Market capitalisation (Note 1) HK\$ million	P/B Ratio (Note 2) times	P/E Ratio (Note 3) times
China Properties Investment Holdings Limited (736)	The properties investment and money lending	0.475	63.5	0.1	1.2
Zhong Ji Longevity Science Group Limited (767)	The business of longevity science, money lending, securities investments and investment advisory	0.50	1,935.1	4.3	N/A
Lerado Financial Group Company Limited (1225)	Medical products and plastic toys business, garments trading and sourcing, securities brokerage business and asset management services, and money lending business and other financial services	0.035	80.6	0.1	N/A
Hong Kong Finance Group Limited (1273)	The money lending business specialising in providing property mortgage loans in Hong Kong	0.485	201.3	0.3	2.7
Quanzhou Huixin Micro-credit Company Limited (1577)	Loan business and finance lease business	1.18	590.0 (Note 6)	0.4 (Note 6)	12.1 (Note 6)
Global International Credit Group Limited (1669)	The money lending business focusing primarily on providing short-term and long-term property mortgage loans in Hong Kong	0.58	232.0	0.3	3.6

Company name (Stock code)	Principal business(es)	Share price (Note 1) HK\$	Market capitalisation (Note 1) HK\$ million	P/B Ratio (Note 2) times	P/E Ratio (Note 3) times
Wealthy Way Group Limited (3848)	(i) Provision of financial leasing, factoring and financial advisory services in the PRC; (ii) provision of small loans and related loan facilitation services in the PRC; and (iii) provision of investment management and advisory services, securities dealing and broking services and other financial services in Hong Kong	6.50	1,017.8 (Note 6)	1.3 (Note 6)	N/A
			Average	1.0	12.1
			Minimum	0.1	1.2
			Maximum	4.3	51.7
The Offer		0.285 (Note 4)	1,837.7 (Note 5)	2.2	139.2

Source: the website of the Stock Exchange

Notes:

1. The closing share price and market capitalisation of the Comparable Companies Group A and Comparable Companies Group B as at the Last Trading Day are based on information extracted from the website of Stock Exchange. The market capitalisation of the Comparable Companies is calculated based on their respective closing share prices and number of issued shares as per the website of the Stock Exchange.
2. The P/B Ratios of the Comparable Companies Group A and Comparable Companies Group B are calculated based on their market capitalisation as at the Last Trading Day and their latest published consolidated net asset value attributable to equity holders.
3. The P/E Ratios of the Comparable Companies Group A and Comparable Companies Group B are calculated based on their market capitalisation as at the Last Trading Day and their latest published net profit attributable to equity holders for its completed financial year.
4. The Offer Price of HK\$0.285 per Share.
5. For the purpose of determining the implied market capitalisation of the Group, the Offer Price and the issued share capital of the Group of 6,448,152,160 Shares as at the Latest Practicable Date were applied.
6. An exchange rate of RMB1:HK\$1.1869 was adopted as the company's reporting currency was RMB.
7. An exchange rate of RM1:HK\$1.9276 was adopted as the company's reporting currency was RM.
8. An exchange rate of US\$1:HK\$7.7536 was adopted as the company's reporting currency was US\$.

Given that the trading or manufacturing flavours or fragrances or food additives and money lending related business are in nature very different businesses, we have compared the P/B Ratios of these two types of business with the Implied P/B Ratio and Implied P/E Ratio separately.

As shown in the above table, the P/B Ratio of the Comparable Companies Group A ranged from approximately 0.5 times to 3.5 times, with an average of 1.8 times. The Implied P/B Ratio of approximately 2.2 times is therefore fall within the range among and higher than the average of the Comparable Companies Group A. Meanwhile, the P/B Ratio of the Comparable Companies Group B ranged from approximately 0.1 times to 4.3 times, with an average of 1.0 times. The Implied P/B Ratio of approximately 2.2 times is therefore fall within the range among and higher than the average of the Comparable Companies Group B.

As shown in the above table, the P/E Ratio of the Comparable Companies Group A ranged from approximately 9.3 times to 94.1 times, with an average of 30.9 times. The Implied P/E Ratio of approximately 139.2 times is therefore above the highest P/E Ratio among the Comparable Companies Group A. Meanwhile, the P/E Ratio of the Comparable Companies Group B ranged from approximately 1.2 times to 51.7 times, with an average of 12.1 times. The Implied P/E Ratio of approximately 139.2 times is therefore above the highest P/E Ratio among the Comparable Companies Group B, implying that the Offer Price is more favourable than the market prices of Comparable Companies Group A and Comparable Companies Group B.

The Offer Price represents the Implied P/B Ratio of approximately 2.2 times and the Implied P/E Ratio of approximately 139.2 times. Based on the analysis as set out above, the P/B Ratio under the Offer is above the average of the Comparable Companies Group A and Comparable Companies Group B, and the P/E Ratio under the Offer is also above the maximum of the Comparable Companies Group A and Comparable Companies Group B, which we are of the view that the Offer Price is fair and reasonable so far as the Independent Shareholders are concerned.

## **RECOMMENDATION**

Having considered the abovementioned principal factors and reasons for the Offer, in particular that:

- (i) as disclosed in the paragraph headed "1.(b). Prospect and outlook of the Group's principal activities" in this letter, although the Group is operating in relatively stable trading business. However, it is uncertain whether profits expected to be generated from the Group's stable trading business will be sufficient to offset the potentially loss-making money lending and trading of CBD isolate segments of the Group;
- (ii) the Group recorded loss attributable to owners of the Company of approximately HK\$83.4 million for the six months ended 30 September 2021 as disclosed in the 2021 Interim Results;

- (iii) the Offer Price represents (a) a premium of approximately 3.64% to the closing price of HK\$0.275 per Share as quoted on the Stock Exchange on the Last Trading Day; (b) a premium of approximately 15.38% over the average closing price of approximately HK\$0.275 per Share based on the daily closing prices as quoted on the Stock Exchange for the 5 trading days immediately prior to and including the Last Trading Day; and (c) a premium in general to the closing price of the Shares since the publication of the Joint Announcement. The Offer Price also falls within the range of the closing prices of the Shares during the Review Period, despite that the Offer Price represents a discount of approximately 22.97% to the average closing price per Share during the Review Period, we noted that the closing price of the Shares has indicated an overall downward trend before the publication of the Joint Announcement which was in line with the Company's recent financial performance;
- (iv) the Offer Price represents a premium of approximately 115.91 % over the audited consolidated NAV attributable to the Shareholders per Share of approximately HK\$0.132 as at 31 March 2021, based on a total of 6,448,152,160 Shares in issue as at the Latest Practicable Date and the audited consolidated net asset value attributable to owners of the Company of approximately HK\$851,155,911 as at 31 March 2021;
- (v) the Offer Price represents a premium of approximately 137.50% over the unaudited consolidated NAV attributable to the Shareholders per Share of approximately HK\$0.120 as at 30 September 2021, based on a total of 6,448,152,160 Shares in issue as at the Latest Practicable Date and the unaudited consolidated net asset value attributable to owners of the Company of approximately HK\$772,225,946 as at 30 September 2021; and
- (vi) the trading volume prior to and after the publication of Joint Announcement were relatively thin and Independent Shareholders may encounter difficulties in liquidating their Shares in the open market and that the Offer represents an opportunity for them to realise their investment. The Offer provides the Independent Shareholders with an assured exit if they wish to realise their investments in the Shares;

we are of the opinion that the terms of the Offer are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to accept the Offer. Nonetheless, we would like to remind the Independent Shareholders who would like to realise part or all of their investments in the Shares to closely monitor the market price and liquidity of the Shares during the Offer Period and may, instead of accepting the Offer, consider selling their Shares in the open market should such sale proceeds, net of all transaction costs, exceed the amount receivable under the Offer.

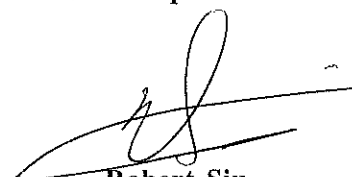


In view of the volatility of market conditions, those Independent Shareholders who intend to accept the Offer are reminded that they should closely monitor the market price and the liquidity of the Shares during the Offer Period and should consider selling their Shares in the open market, rather than accepting the Offer, if the net proceeds from the sale of such Shares in the open market would exceed the net proceeds receivable under the Offer.

In addition, the Independent Shareholders who wish to realise their investments in the Company in the open market should also consider and monitor the trading volume of the Shares during the Offer Period as, having taken into account the thin historical trading volume of the Shares on the Stock Exchange as discussed in the paragraph headed "Liquidity of the Shares" of this letter, they may experience difficulty in disposing of their Shares in the open market without creating downward pressure on the price of the Shares.

As each individual Independent Shareholder would have different investment objectives and/or circumstances, we would recommend the Independent Shareholders who may require advice in relation to any aspect of the Composite Document, or as to the action to be taken, to consult a licensed securities dealer, bank manager, solicitor, professional accountant, tax adviser or other professional adviser. Furthermore, they should carefully read the procedures for accepting the Offer as set out in the Composite Document, its appendices and the accompany Forms of Acceptance.

Yours faithfully,  
For and on behalf of  
**Red Sun Capital Limited**



**Robert Siu**  
*Managing Director*

*Mr. Robert Siu is a licensed person registered with the SFC and a responsible officer of Red Sun Capital Limited to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and has over 20 years of experience in corporate finance industry.*