

*The following is a letter of advice from the Independent Financial Adviser to the Independent Board Committee prepared for the purpose of incorporation into this Composite Document.*



Room 2418, Wing On Centre  
111 Connaught Road Central  
Hong Kong

*To the Independent Board Committee and the Independent Shareholders*

Dear Sir or Madam,

**CONDITIONAL MANDATORY CASH OFFER BY  
RAINBOW CAPITAL (HK) LIMITED  
FOR AND ON BEHALF OF THE OFFEROR  
TO ACQUIRE ALL THE ISSUED SHARES OF  
DA SEN HOLDINGS GROUP LIMITED  
(OTHER THAN THOSE ALREADY OWNED AND/OR  
AGREED TO BE ACQUIRED BY THE OFFEROR)**

12 October 2022

**INTRODUCTION**

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Offer, details of which are set out in the Composite Document dated 12 October 2022, of which this letter forms part. Unless the context otherwise requires, capitalised terms used in this letter shall have the same meanings as those defined in the Composite Document.

On 21 September 2022 (after trading hours), the Vendors (as vendors) and the Offeror (as purchaser) entered into the Sale and Purchase Agreement pursuant to which the Vendors conditionally agreed to sell and the Offeror conditionally agreed to purchase the Sale Shares (being 96,840,000 Shares), representing approximately 6.21% of the entire issued share capital of the Company as at the date of the Joint Announcement, for a total cash Consideration of HK\$4,357,800.00 (equivalent to HK\$0.045 per Sale Share). Completion took place on 23 September 2022 and the Consideration has been paid by the Offeror to the Vendors in accordance with the Sale and Purchase Agreement.

As at the date of the Joint Announcement, the Offeror held 397,875,050 Shares, representing approximately 25.52% of the entire issued share capital of the Company. Immediately following Completion, the Offeror owns 494,715,050 Shares, representing approximately 31.73% of the entire issued share capital of the Company. As at the date of the Joint Announcement, the Offeror and parties acting in concert with him held 518,078,095 Shares, representing approximately 33.23% of the entire issued share capital of the Company. Immediately following Completion, the Offeror and parties acting in concert with him own 614,918,095 Shares, representing approximately 39.44% of the entire issued share capital of the Company. Accordingly, the Offeror is required under Rule 26.1 of the Takeovers Code to make a conditional mandatory cash offer for all the issued Shares (other than those already owned or agreed to be acquired by the Offeror).

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

Pursuant to Rule 2.1 of the Takeovers Code, the Independent Board Committee, comprising the sole non-executive Director and all independent non-executive Directors who have no direct or indirect interest in the Offer, namely Mr. Sun Yongtao, Ms. Lo Yuk Yee, Mr. Chan Shiu Yuen Sammy and Mr. Kwok Yiu Tong, has been established to advise the Independent Shareholders in connection with the Offer and in particular as to whether the terms of the Offer are fair and reasonable and as to the acceptance of the Offer.

We, Euto Capital Partners Limited, have been appointed by the Company as the Independent Financial Adviser to advise the Independent Board Committee in respect of the Offer and in particular as to whether the Offer is, or is not, fair and reasonable and as to its acceptance. Pursuant to Rule 2.1 of the Takeovers Code, our appointment has been approved by the Independent Board Committee.

#### **OUR INDEPENDENCE**

As at the Latest Practicable Date, we are not associated or connected financially or otherwise with any member of the Group or the Offeror, their respective substantial or controlling shareholders or any party acting, or presumed to be acting, in concert with any of them. During the past two years immediately preceding and up to the Latest Practicable Date, save for this appointment as the Independent Financial Adviser, there were no other engagements between Euto Capital Partners Limited and the Group or the Offeror or the parties acting in concert with it and us. Apart from normal professional fees paid or payable to us in connection with this appointment as the Independent Financial Adviser, no arrangement exists whereby we will receive any fees or benefits from the Group or the Offeror, their respective substantial or controlling shareholders and financial or other professional advisers or any party acting, or presumed to be acting, in concert with any of them. Accordingly, we are considered eligible to give independent advice in respect of the Offer.

## BASIS OF OUR OPINION

In formulating our opinion and advice, we have relied on (i) the information and facts contained or referred to in the Composite Document; (ii) the information provided to us by the Group and its advisers; (iii) the opinions expressed by and the representations of the Directors and the management of the Group; and (iv) our review of the relevant public information. We have assumed that all the information provided and representations and opinions expressed to us or contained or referred to in the Composite Document were true, accurate and complete in all respects as at the date thereof and may be relied upon. Shareholders will be notified for any subsequent material changes to such statements, information, opinions and/or representations as soon as practicable in accordance with Rule 9.1 of the Takeovers Code. We have also assumed that all the statements contained and representations made or referred to in the Composite Document are true in all material respects at the time they were made and continue to be true as at the Latest Practicable Date and all such statements of belief, opinions and intentions of the Directors and the management of the Group and those as set out or referred to in the Composite Document were reasonably made after due and careful enquiry. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and the management of the Group. We have also sought and received confirmation from the Directors that no material facts have been withheld or omitted from the information provided and referred to in the Composite Document and that all information or representations provided to us by the Directors and the management of the Group are true, accurate, complete and not misleading in all respects at the time they were made and continued to be so until the date of the Latest Practicable Date.

All the Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Composite Document (other than the information relating to the Offeror and his concert parties but excluding Mr. Wong Ben and Mr. Chai), and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Composite Document (other than those expressed by the Offeror) 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.

Should there be any subsequent material changes (including changes to this letter) which occur during the period from the date of the Composite Document up to the close of the Offer, we will notify the Independent Board Committee and the Independent Shareholders as soon as possible in accordance with Rule 9.1 of the Takeovers Code.

We consider that we have reviewed sufficient information currently available, among others: (i) the annual reports of the Company for the year ended 31 December 2021 (the “**2021 Annual Report**”) and for the year ended 31 December 2022 (the “**2022 Annual Report**”); (ii) the interim report of the Company for the six months ended 30 June 2022 (the “**2022 Interim Report**”); and (iii) the announcement of the Company dated 21 September 2022 in relation to the possible conditional mandatory cash offer which are made available to us and enable us to reach an informed view and to justify our reliance on the accuracy of the information contained in the Composite Document so as to provide a reasonable basis for our recommendation. We have not, however, carried out any independent verification of the information provided, representations

made or opinion expressed by the Directors and the management of the Group, nor have we conducted any form of in-depth investigation into the business, affairs, operations, financial position or future prospects of the Group, or any of its respective substantial shareholders, subsidiaries or associates.

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

## **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In assessing the Offer and in giving our recommendations to the Independent Board Committee and the Independent Shareholders, we have taken into account the following principal factors and reasons:

### **1. Principal terms of the Offer**

Rainbow Capital is making the Offer for and on behalf of the Offeror in compliance with the Takeovers Code on the following basis:

For each Offer Share ..... HK\$0.045 in cash

The Offer Price of HK\$0.045 per Offer Share under the Offer is equal to the purchase price per Sale Share paid by the Offeror under the Sale and Purchase Agreement.

As at the Latest Practicable Date, 1,559,040,000 Shares were in issue and the Company does not have any outstanding options, warrants or derivatives or other securities which are convertible or exchangeable into Shares.

The procedures for acceptance and further details of the Offer are set out in Appendix I to this Composite Document and the accompanying Form of Acceptance.

### **2. Background of the Group**

The Group was principally engaged in the manufacturing and sales of plywood products and leasing activities. The Group's plywood products consist of (i) furniture board (家具板) which is widely used in interior design and certain household furniture; (ii) ecological plywood (生態板) which is used in interior applications of buildings and furniture making; and (iii) hardwood multi-layered board (實木多層板) which is widely used in high-quality furniture, kitchen furniture and bathroom furniture. Customers of the Group are mainly end users including furniture manufacturers, equipment manufacturers, decoration or renovation companies and packing material producers.

### 3. Business and financial performance of the Group

#### (i) Financial performance

Set out below is a summary of the consolidated financial information of the Group for the years ended 31 December 2019 (“FY2019”), 2020 (“FY2020”) and 2021 (“FY2021”) and for the six months ended 30 June 2021 (“1H2021”) and 2022 (“1H2022”) as extracted from the 2021 Annual Report and the 2022 Interim Report respectively:

	FY2019	FY2020	FY2021	1H2021	1H2022
	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000
	(audited)	(audited)	(audited)	(unaudited)	(unaudited)
	(restated)	(restated)			
<i>Continuing operations</i>					
<b>Revenue</b>	305,503	175,281	172,748	82,113	34,879
– Sales of plywood	305,503	173,859	170,548	81,452	33,023
– Rental income	–	1,422	2,200	661	1,856
Cost of sales	(329,755)	(289,083)	(229,799)	(95,684)	(35,661)
<b>Gross loss</b>	(24,252)	(113,802)	(57,051)	(13,571)	(782)
Selling and distribution expenses	(1,029)	(845)	(1,140)	(543)	(339)
Administrative expenses	(21,012)	(14,584)	(16,883)	(15,130)	(6,526)
Allowance for expected credit losses, net	(11,404)	(61,864)	(22,629)	(888)	(4,858)
Other income, gains or (losses)	(9,428)	(9,517)	(17,662)	(2)	(225)
Finance costs	(4,987)	(4,416)	(3,745)	(2,561)	(2,953)
<b>Loss before tax from continuing operations</b>	(72,112)	(205,028)	(119,110)	(32,695)	(15,683)
Income tax (expense)/credit	4,539	(6,246)	(41)	–	(83)
<b>Loss for the year from continuing operations</b>	(67,573)	(211,274)	(119,151)	(32,695)	(15,766)
<i>Discontinued operation</i>					
Sales of biomass wood pellets	13,039	2,952	–	–	–
Net (provision)/reversal of impairment losses on financial assets	97	(18,931)	–	–	–
Loss for the year from discontinued operation	(8,008)	(24,028)	–	–	–
<b>Loss attributable to the shareholders of the Company</b>	(75,581)	(235,302)	(119,151)	(32,695)	(15,766)

*FY2020 as compared to FY2019*

Revenue of the Group decreased significantly from approximately RMB305.5 million for FY2019 to approximately RMB175.3 million for FY2020 as a result of the decrease in sales of plywood products due to the outbreak of COVID-19 since the beginning of 2020 which disrupted general economic conditions and demands for non-essential goods. The Group's customers, such as furniture manufacturers and decoration or renovation companies, reduced their purchase orders on plywood products as demand from the end purchasers of their finished products dropped significantly in 2020.

As the demand for biomass wood pellets has significantly reduced since the latter part of 2019, in the second half of 2020, the Group made the decision to cease the operations of this business segment. Following the cessation of the biomass wood pellets business, to make better use of the properties of the biomass wood pellets plant as well as other plants and land which are surplus to the Group, the Group decided to lease out some of these properties to generate recurring rental income. As a result, rental income business became a new business segment of the Group for FY2020.

As an interim measure to improve liquidity, the Group made the decision to lower the selling prices of its plywood products during the six months ended 30 June 2020. However, the Group was unable to lift the selling prices of its plywood products in the latter half of 2020 as the demand for the Group's plywood products continued to contract. Due to the above and the provision for inventory write-down, gross loss of the Group increased to approximately RMB113.8 million for FY2020 from approximately RMB24.3 million for FY2019.

Net loss from continuing operations increased from approximately RMB67.6 million for FY2019 to approximately RMB211.3 million for FY2020, which was primarily resulted from (a) the increase in gross loss as mentioned above; and (b) the increase in allowance for expected credit losses, net due to the worsening collectability of outstanding receivables from the Group's downstream customers which have been experiencing difficulties in their business operations as a result of COVID-19. The loss from discontinued operation related to the biomass wood pellet business also increased from approximately RMB8.0 million for FY2019 to approximately RMB24.0 million for FY2020 prior to the cessation of this business.

As a result of the foregoing, the loss attributable to the Shareholders increased from approximately RMB75.6 million for FY2019 to approximately RMB235.3 million for FY2020.

*FY2021 as compared to FY2020*

Revenue of the Group remained relatively stable at approximately RMB172.7 million for FY2021 as compared to approximately RMB175.3 million for FY2020, among which sales of plywood amounted to approximately RMB170.5 million and rental income amounted to approximately RMB2.2 million. Nevertheless, the Group has seen improvements in both the sales volume and the pricing of its plywood products since the first half of 2021 as the demand for the Group's product gradually recovered. During FY2021, the Group gradually lifted the selling prices of its plywood products which as a result of this and better control over manufacturing and inventory costs, gross loss of the Group decreased significantly from approximately RMB113.8 million for FY2020 to approximately RMB57.1 million for FY2021.

Net loss from continuing operations decreased from approximately RMB211.3 million for FY2020 to approximately RMB119.2 million for FY2021, which was primarily attributable to (a) the decrease in gross loss as mentioned above; and (b) the decrease in allowance for expected credit losses, net.

As a result of the foregoing, loss attributable to the Shareholders decreased from approximately RMB235.3 million for FY2020 to approximately RMB119.2 million for FY2021.

*1H2022 as compared to 1H2021*

Revenue of the Group was approximately RMB34.9 million for the six months ended 30 June 2022, representing a decrease of approximately 57.5% from approximately RMB82.1 million in 1H2021 which was mainly because the Company has focused on customers with good repayment abilities and profit margins, shifted away from those customers which are under financial distress and taken actions to control cost, allowing the company to achieve better overall profit margins despite a decrease in revenue. The sales of plywood amounted to approximately RMB33.0 million and rental income amounted to approximately RMB1.9 million.

The total selling and administrative expenses were approximately RMB6.9 million in 1H2022, representing a decrease of approximately 56.2% from approximately RMB15.7 million in 1H2021, mainly due to the implementation of more management controls in costs savings and productions.

Net loss from continuing operations decreased from approximately RMB32.7 million for 1H2021 to approximately RMB15.8 million for 1H2022. Such decrease in loss was mainly due to improvements made in profit margins and other cost control measures in the production process.

As a result of the foregoing, loss attributable to the Shareholders decreased from approximately RMB32.7 million for 1H2021 to approximately RMB15.8 million for 1H2022.

(ii) *Financial position*

Set out below is a summary of consolidated financial position of the Group as at 31 December 2021 and 30 June 2022 as extracted from the 2021 Annual Report and the 2022 Interim Report respectively:

	<b>As at 31 December 2021 RMB'000 (audited)</b>	<b>As at 30 June 2022 RMB'000 (unaudited)</b>
<b>Non-current assets</b>	89,937	88,125
Right-of-use assets	7,352	2,804
Property, plant and equipment	37,425	18,054
Investment properties	45,160	67,267
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<b>Current assets</b>	90,748	82,559
Inventories	5,116	3,923
Trade and other receivables	82,373	77,335
Cash and cash equivalents	3,259	1,301
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<b>Total assets</b>	<b>180,685</b>	<b>170,684</b>
	<hr/> <hr/>	<hr/> <hr/>
Equity attributable to owners of the Company	50,120	34,354
	<hr/>	<hr/>
<b>Non-current liabilities</b>	267	254
Deferred income	267	254
	<hr/>	<hr/>
<b>Current liabilities</b>	130,298	136,076
Trade and other payables	53,983	55,985
Deferred income	25	25
Receipt in advance	240	2,375
Tax payables	7,168	7,168
Amount due to related parties	6,235	6,910
Borrowings	62,647	63,613
	<hr/>	<hr/>
<b>Total liabilities</b>	<b>130,565</b>	<b>136,330</b>
	<hr/> <hr/>	<hr/> <hr/>
<b>Net current assets/(liabilities)</b>	<b>(39,550)</b>	<b>(53,517)</b>
<b>Gearing ratio (note)</b>	<b>125.0%</b>	<b>185.2%</b>
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*Note:*

Calculated based on total interest-bearing debts divided by total equity of the Company as at the end of the year

As at 30 June 2022, the total assets of the Group mainly comprise of properties, plant and equipment, investment properties and trade and other receivables and in aggregate amounted to approximately RMB162.7 million, which represented approximately 95.3% of the total assets. The total liabilities of the Group mainly comprise of trade and other payables and borrowings and in aggregate amounted to approximately RMB119.6 million, which represented approximately 87.7% of the total liabilities. As a result, the Group recorded net assets of approximately RMB34.4 million as at 30 June 2022 which was mainly due to the reduction in trade receivables and the reclassification from property, plant and equipment to investment properties. In addition, there was a decrease in non-current assets which was due to depreciation and amortization, decrease in inventories and trade receivable due to the drop in revenue for the interim period and the expected credit losses made for the period and the increase in trade payable and receipt in advance was due to the delay in settlement to suppliers in order to maintain adequate cash flow for daily operation.

As at 31 December 2021, the total assets of the Group mainly comprise of properties, plant and equipment, investment properties and trade and other receivables and in aggregate amounted to approximately RMB165.0 million, which represented approximately 91.3% of the total assets. The total liabilities of the Group mainly comprise of trade and other payables and borrowings and in aggregate amounted to approximately RMB116.6 million, which represented approximately 89.3% of the total liabilities. As a result, the Group recorded net assets of approximately RMB50.1 million as at 31 December 2021.

The Group held current assets of approximately RMB82.6 million as at 30 June 2022 (31 December 2021: RMB90.7 million), comprising inventories, trade and other receivables and cash and cash equivalents. The Group's total current liabilities amounted to approximately RMB136.1 million as at 30 June 2022, as compared to approximately RMB130.3 million as at 31 December 2021. The increase was mainly due to the cash advances made by the substantial shareholder and a director of the Company to support the proposed restructuring of the Company and the extra loans made to the Group by independent third parties. The Group's net current liabilities were worsened and increased by approximately 35.3% from approximately RMB39.6 million as at 31 December 2021 to approximately RMB53.5 million as at 30 June 2022. The Company should not be in any solvency issue as after the completion of the Proposed Restructuring as defined below, the Company's borrowing will be substantially reduced.

As at 30 June 2022, the gearing ratio of the Group, calculated based on total interest-bearing debts divided by total equity of the Company as at the respective period and multiplied by 100 percent, was approximately 185.2% and compare to approximately 125.0% as at 31 December 2021, which was mainly due to the significant decline of 31.5% in total equity of the Company.

***(iii) Independent Auditor's Opinion***

Based on the independent auditor's report of the Company for the year ended 31 December 2021, the independent auditor of the Company pointed out that there were multiple uncertainties relating to going concern: (i) for the year ended 31 December 2021, the Group incurred a net loss of RMB119,151,000 and recorded a net operating cash outflow of RMB6,761,000; (ii) as at 31 December 2021, the Group recorded net current liabilities of RMB39,550,000 where the Group's current borrowings amounted to RMB62,647,000 in total, including bonds payable of RMB27,860,000 in Hong Kong, bank borrowings of RMB25,287,000 and other loan of RMB9,500,000 from independent third party in the PRC while the Group's cash and cash equivalents amounted to RMB3,259,000 only; and (iii) as at 31 December 2021, bonds payable and related interests of RMB32,550,000 and three bank borrowings in the PRC amounting to RMB16,287,000 in total were defaulted in repayment, and was of the view that all the above indicated the existence of material uncertainties which may cast significant doubt about the Group's ability to continue as a going concern. The opinion of the independent auditor of the Company in respect of the consolidated financial statements of the Group for the year ended 31 December 2021 was a disclaimer of opinion because of the multiple uncertainties relating to going concern as mentioned above.

Nevertheless, we consider that despite the improvement in the financial results for 1H2022, the Group continued to record loss for 1H2022 and net current liabilities of RMB53.5 million as at 30 June 2022 and it remains unsure whether the Group can improve its financial performance and position consistently in the long run. In addition, the prospects of the Group's business, despite certain positive developments as discussed in the section headed "(iv) Outlook of the Group" below, remain uncertain as it is yet to be clear whether any synergy effects between the Group and the Offeror as discussed in the section headed "4. Information of the Offeror" below in this letter will materialise. Should the Group be unable to operate as a going concern, adjustments would have to be made to reduce the carrying values of the Group's assets to their recoverable amounts, to provide for financial liabilities which might arise, and to reclassify non-current assets and noncurrent liabilities as current assets and current liabilities, respectively in the Group's consolidated financial statements.

In view of the above, we consider the terms of the Offer are fair and reasonable so far as the Independent Shareholders are concerned. We advise the Independent Shareholders to accept the Offer. The Independent Shareholders should also closely monitor the market price and liquidity of the Shares during the Offer Period and carefully consider the relevant risks and uncertainties based on their individual risk preference and tolerance level. Those Independent Shareholders who decide to retain part or all of their investments in the Shares should also carefully monitor the financial performance of the Group as well as the intention of the Offeror in relation to the Group in the future (further details have been set out in the section headed "4. Information of the Offeror" in this letter), and the potential difficulties they may encounter in disposing of their investments in the Shares after the close of the Offer.

In deciding whether or not to accept the Offer, the Independent Shareholders should also consider the disclaimer of opinion issued by the independent auditor of the Company on the consolidated financial statements of the Group for the year ended 31 December 2021, which may continue to have an impact on the financial results of the Company going forward. Please refer to Appendix II to this Composite Document for further details.

Pursuant to Note 3 to Rule 2 of the Takeovers Code, the Board would like to draw the attention of the Independent Shareholders to the material uncertainties relating to going concern as set out in Appendix II to this Composite Document. The Independent Shareholders are advised to take into account the foregoing and consider carefully the terms of the Offer. If the Independent Shareholders decide not to accept the Offer, they should be aware of the potential risks associated with the material uncertainties relating to going concern.

*(iv) Outlook of the Group*

The Group is principally engaged in the manufacturing and sales of plywood products and leasing activities. The Group's plywood products consist of (i) furniture board (家具板) which is widely used in interior design and certain household furniture; (ii) ecological plywood (生態板) which is used in interior applications of buildings and furniture making; and (iii) hardwood multi-layered board (實木多層板) which is widely used in high-quality furniture, kitchen furniture and bathroom furniture. Customers of the Group are mainly end users including furniture manufacturers, equipment manufacturers, decoration or renovation companies and packing material producers. Revenue of the Group is primarily derived from its manufacturing and selling of plywood business, and derived within the PRC and all the operating assets of the Group are located in the PRC, which is considered as one geographic location with similar risks and returns.

The Offeror intended to continue the existing principal businesses of the Group and had no intention to discontinue the employment of the employees (save for changes in the composition of the Board) or to dispose of or re-deploy the assets of the Group other than those in its ordinary course of business upon the close of the Offer. For details on the Offeror's intention in relation to the Group after completion of the Offer, please refer to the section headed "5. Intentions of the offeror in relation to the Group" below.

On 30 November 2020, the Company announced a proposed restructuring of the debts in Hong Kong (the "**Proposed Restructuring**"), including the bonds payable and related interests of RMB32,550,000 and other liabilities were defaulted in repayment as at 31 December 2021 by way of implementing a creditors scheme (the "**Creditors Scheme**"). On 11 January 2022, the Creditors Scheme was sanctioned without modification by the High Court of Hong Kong Special Administrative Region. On 8 January 2021, the Company announced a proposed open offer of shares of the Company (the "**Open Offer**") to raise fund for the implementation of the Creditors Scheme. It is expected that the proceeds from the Open Offer of

approximately HK\$23.4 million would be used for settlement of the payment obligations under the Creditors Scheme and working capital of the Group. The Open Offer has been completed in July 2022 with a substantial oversubscription, which greatly improves the financial status of the Group. Upon completion of the Proposed Restructuring in October 2022, after the payment of cash and issuance of Scheme Shares, the Group's borrowings and interest burden will accordingly be reduced. The Group have sufficient cash to pay off the sum due under the Proposed Restructuring.

As expressed in the 2022 Interim Report, the year of 2022 continues to be a challenging year with the pandemic, global inflation, Sino-US disputes and the Russia-Ukraine war. These combined effects continue to have a huge impact on the clients as the traditional customers of the Company relied on exports to Western countries, leading them to purchase less. Since 2021, the Company has decided to focus on clients with better margins and payment ability and to control the costs. In 1H2022, the Group have a significantly lower turnover of sales and an improved net loss from continuing operations compare to 1H2021 mainly due to improvement made in profit margins and other cost control measures in the production process and the Group believe that this trend will continue with improvements in costs savings and the shift to focus on better performing customers. However, it remains uncertain as to whether the trend will continue as it is hard to predict the macro environment in the future.

As expressed in the 2022 Interim Report, the disposal of certain non-core assets, the investment properties which is not related to the production of plywood, of the Group is still on-going, the Company believes that major progress has been made and it is expected that an agreement with potential investor will be reached within the second half of 2022. In addition, the sales in new geographic markets with new business partners will commence in the third quarter of 2022, instead of focusing in customers in the PRC, the new business line (the "**New Business Line**") will allow the Company to expand the sales of wood products to export to Asian countries including Japan. Based on the current information available, it is expected that the New Business Line will provide a new source of revenue for the Group with positive gross profit margin. Looking forward to 2022 and beyond, the Group will explore environmental-friendly solutions to reduce their wastes and the Group will take more effective measures to manage the assets in Heze Shandong. All these will become the foundations for transitioning the Group into a more modern manufacturing and production group.

Notwithstanding that (i) the Offeror will continue to operate its existing business; (ii) the Group has completed the Open Offer and improved the financial status of the Group; and (iii) the New Business Line will be commenced in the third quarter of 2022 which is expected to provide a new source of revenue for the Group, having considered that (a) the future financial performance of the Company will be dependent on the PRC economy situation and the demand of the wood products by its customers to supply overseas; (b) the Group reported net losses for 1H2022, FY2021, FY2020 and FY2019 which suggest that the Group is operating in challenging business environment; and (c) the consolidated net asset value of the Group has been

declined for approximately 31.5% from RMB50.1 million as at 31 December 2021 to approximately RMB34.4 million as at 30 June 2022, we consider that the future prospects of the Group remain challenging and uncertain in the near future and will depend on the future business plans and strategy of the Company to be formulated by the Offeror.

#### **4. Information of the Offeror**

The Offeror is Mr. Wong Tseng Hon who is a substantial shareholder of the Company, holding approximately 31.73% of the entire issued share capital of the Company as at the Latest Practicable Date. Mr. Wong Tseng Hon is also the father of Mr. Wong Ben, an executive Director. Mr. Wong Tseng Hon, aged 80, is a merchant and has been engaged in property investment and development business in the PRC and Hong Kong for over 50 years. He has been investing in real estate projects since the 1970s and was appointed as a member of the Shenzhen Municipal Committee of the Chinese People's Political Consultative Congress from 2000 to 2010. The Offeror has no industry experience in the principal business of the Group.

Based on the above information of the Offeror, we noted that the Offeror has ample experience in the property investment and development business industry. The Offeror's involvement in different industries for such a long period of time provided him with valuable strategic management and operation experience, including making critical decisions and providing policy guidance in the managing of sales, marketing and employees. The experience of the Offeror may be beneficial to the business development of the Group. However, it appears that he does not have immediate experience in similar business of the Group and he has yet to conduct a detailed review of the operations of the Group and formulate business strategies of the Group's long term development, we are of the view that the Offeror may not have sufficient industry knowledge to capture the business opportunities within the competitive plywood industry and to enhance the overall development of the Group.

#### **5. Intentions of the offeror in relation to the Group**

As set out in the Letter from Rainbow Capital in the Composite Document, the Offeror intended to continue the existing principal businesses of the Group and had no intention to discontinue the employment of the employees (save for changes in the composition of the Board) or to dispose of or re-deploy the assets of the Group other than those in its ordinary course of business. As at the Latest Practicable Date, the Offeror has no intention, understanding, negotiation or arrangement (concluded or otherwise) to downsize, cease or dispose of any of the existing businesses of the Group following the close of the Offer. The Offeror intends to retain the existing management team in the PRC to operate and manage the existing principal businesses of the Group.

The Offeror will, following the close of the Offer, conduct a review on the business activities/operations and financial position of the Group for the purpose of formulating business plans and strategies for the future business development of the Group. Subject to the results of the review and should suitable investment or business opportunities arise, the Offeror may explore other business opportunities for the Company which may involve

acquisitions or investments in assets and/or businesses or cooperation with business partners of the Offeror with a view to enhancing the Group's business growth and asset base as well as broadening its income stream. As at the Latest Practicable Date, the Offeror had no definitive plan, and had not engaged in any discussion or negotiation, on any injection of any assets or businesses into the Group or disposals of any core assets or businesses of the Group.

***Proposed change of board composition of the Company***

As at the Latest Practicable Date, the Board is currently made up of three executive Directors, being Mr. Chai Kaw Sing, Mr. Wong Ben and Mr. Zhang Ayang (duties suspended), one non-executive Director, being Mr. Sun Yongtao, and three independent non-executive Directors, being Mr. Chan Shiu Yuen Sammy, Mr. Kwok Yiu Tong and Ms. Lo Yuk Yee.

The Offeror intends to nominate new directors to the Board with effect from a date which is no earlier than such date as permitted under the Takeovers Code or such later date as the Offeror considers to be appropriate. As at the Latest Practicable Date, the Offeror has not reached any final decision as to the identity of (i) candidates to be nominated as new directors to the Board; and/or (ii) existing Directors who shall resign or be removed from the Board after the close of the Offer. Any changes to the members of the Board will be made in compliance with the Takeovers Code and/or the Listing Rules and the articles of association of the Company and further announcement(s) will be made as and when appropriate in accordance with the Listing Rules.

***Public float and maintaining the listing status of the Company***

The Stock Exchange has stated that if, at the close of the Offer, less than the minimum prescribed percentage applicable to the Company, being 25% of the issued Shares, are held by the public at all times, 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, the Stock Exchange will consider exercising its discretion to suspend dealings in the Shares. Therefore, upon the close of the Offer, there may be insufficient public float of the Shares and the trading in the Shares may be suspended until sufficient public float exists for the Shares.

The Offeror intends the Company to remain listed on the Stock Exchange after the close of the Offer. The Offeror and any new Directors to be appointed by the Offeror to the Board will jointly and severally undertake to the Stock Exchange to take appropriate steps to ensure that sufficient public float exists in the Shares, i.e. at least 25% of the entire issued share capital of the Company will be held by the public at all times following the close of the Offer.

## 6. Analysis on the Offer Price

### *Offer price analysis*

The offer price of HK\$0.045 per Offer Share represents:

- (i) a discount of approximately 29.69% to the closing price of HK\$0.0640 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a discount of approximately 25.50% to the average closing price of approximately HK\$0.0604 per Share as quoted on the Stock Exchange for the five consecutive trading days immediately prior to and including the Last Trading Day;
- (iii) a discount of approximately 25.00% to the average closing price of approximately HK\$0.0600 per Share as quoted on the Stock Exchange for the ten consecutive trading days immediately prior to and including the Last Trading Day;
- (iv) a discount of approximately 25.25% to the average closing price of approximately HK\$0.0602 per Share as quoted on the Stock Exchange for the 30 consecutive trading days immediately prior to and including the Last Trading Day;
- (v) a discount of approximately 51.40% to the average closing price of approximately HK\$0.0926 per Share as quoted on the Stock Exchange for the 90 consecutive trading days immediately prior to and including the Last Trading Day;
- (vi) a discount of approximately 51.09% to the average closing price of approximately HK\$0.0920 per Share as quoted on the Stock Exchange for the 180 consecutive trading days immediately prior to and including the Last Trading Day;
- (vii) a premium of approximately 14.21% over the audited consolidated net asset value attributable to the Shareholders of approximately HK\$0.0394 per Share as at 31 December 2021, calculated by dividing the Group's audited consolidated net assets attributable to the Shareholders of approximately RMB50,120,000 (equivalent to approximately HK\$61,497,240 based on the exchange rate of RMB1: HK\$1.2270 as at 31 December 2021 as extracted from Bloomberg) as at 31 December 2021 by 1,559,040,000 Shares in issue as at the Latest Practicable Date;

- (viii) a premium of approximately 74.42% over the unaudited consolidated net asset value attributable to the Shareholders of approximately HK\$0.0258 per Share as at 30 June 2022, calculated by dividing the Group's unaudited consolidated net assets attributable to the Shareholders of approximately RMB34,354,000 (equivalent to approximately HK\$40,242,276 based on the exchange rate of RMB1: HK\$1.1714 as at 30 June 2022 as extracted from Bloomberg) as at 30 June 2022 by 1,559,040,000 Shares in issue as at the Latest Practicable Date;
- (ix) a premium of approximately 309.09% over the adjusted unaudited consolidated net asset value attributable to the Shareholders of approximately HK\$0.011 per Share as at 30 June 2022, calculated by dividing the Group's adjusted unaudited consolidated net assets attributable to the Shareholders (the "**Adjusted NAV**") of approximately RMB\$14,647,000 (equivalent to approximately HK\$17,157,496 based on the exchange rate of RMB1: HK\$1.1714 as at 30 June 2022 as extracted from Bloomberg) as at 30 June 2022 by 1,559,040,000 Shares in issue as at the Latest Practicable Date. The calculation of the Adjusted NAV is set out in the section headed "Adjusted NAV per Share" in Appendix II to this Composite Document; and
- (x) a discount of approximately 26.23% to the closing price of HK\$0.061 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

#### ***Historical price performance of the Shares***

In order to assess the fairness and reasonableness of the Offer Price, we have performed a review on the daily closing prices of the Shares from 1 September 2021 (being the date of approximately one year prior to the Last Trading Day) and up to the Latest Practicable Date (the "**Review Period**"). We consider that the Review Period, covering a full twelve-months prior to the Last Trading Day, (i) is appropriate for illustration of the general trend and level of movement of the daily closing prices of the Shares which can reflect the correlation between the recent business performance of the Company and the latest market reaction in the Share price; (ii) is long enough to avoid any short-term fluctuation which may distort our analysis; and (iii) is sufficient and a common market practice.



During the Review Period, the average closing price was approximately HK\$0.088 per Share (the “Average Closing Price”). The daily closing price ranged from HK\$0.056 per Share (the “Lowest Closing Price”) recorded on 22 September 2022 to HK\$0.163 per Share (the “Highest Closing Price”) recorded on 24 June 2022 during the Review Period.

Since the beginning of the Review Period, the daily closing price has been in a flat and steady trend from the early September in 2021 to the end of February in 2022 ranged from HK\$0.076 to HK\$0.097. It then has been in an upward trend to HK\$0.163 per share on 24 June 2022. We have discussed with the Company regarding the increasing trend of the Share price and were advised that they are not aware of any particular reason that led to the increase in the price of the Shares. Subsequently, the closing price of the Shares exhibited a significant drop from HK\$0.163 on 24 June 2022 to HK\$0.06 on 6 August 2022 and experienced a relatively sharp downward trend during July 2022 and remained steady to the Last Trading Day. We have discussed with the Company regarding the decreasing trend of the Share price and were advised that it is because of the market reaction to the Open Offer, more shares were traded during this period which led to a downward trend of the price of the Shares. The closing price was HK\$0.0640 per Share as at the Last Trading Day.

The daily closing prices of the Shares were above the Offer Price throughout the Review Period. The Offer Price of HK\$0.045 per Offer Share represents (a) a discount of approximately 19.64% to the Lowest Closing Price of HK\$0.056 per Share; (b) a discount of approximately 72.39% to the Highest Closing Price of HK\$0.163 per Share; and (c) a discount of approximately 49.12% to the Average Closing Price of approximately HK\$0.088 per Share for the Review Period.

Despite the fact that throughout the Review Period, the Shares closed at price levels above the Offer Price, and the Offer Price represents a considerable discount of approximately 49.12% to the Average Closing Price of the Shares; the Offer Price represents a premium of approximately 74.42% to the unaudited consolidated net assets attributable to the Shareholders per Share as at 30 June 2022; and the Offer Price represents a premium of approximately 309.09% over the Adjusted NAV of approximately HK\$0.011 per Share as at 30 June 2022. If the Shares continue to trade above the Offer Price, the Independent Shareholders may dispose of their Shares in the open market at a higher price than the Offer Price instead of accepting the Offer. Based on the sole perspective of the historical price which is in a decreasing trend of the Shares and there is no guarantee that the Share price will or will not sustain and will or will not be higher than the Offer Price during and after the period for the acceptance of the Offer, we consider that the Offer Price at HK\$0.045 is fair and reasonable. However, Independent Shareholders should consider the overall perspective of the various factors contained in different sections of this letter before making their decision on the acceptance of the Offer.

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 as at the Last Practicable Date.

### **Historical trading liquidity of the Shares**

Set out below in the table are figures during the Review Period regarding (i) the number of trading days of the Shares in each month; (ii) the total trading volume of the Share for each month; (iii) the average daily trading volume of the Shares; (iv) the percentages of the average daily trading volume to the Shares to the total issued Shares:

Month	Monthly total trading volume of the Shares (A)	No. of trading days (B)	Average daily trading volume of the Shares (C) = (A)/(B)	Total issued Shares at the end of each month (D) <i>(Note 1)</i>	Approximate percentage of the average daily trading volume of the Shares to the total issued Shares (C)/(D) <i>(Note 2)</i>	Approximate percentage of the average daily trading volume to the total number of issued Shares held by the public as at the end of the period/month <i>(Note 3)</i>
<b>2021</b>						
September	1,189,600	21	56,648	974,400,000	0.0058%	0.0087%
October	507,700	18	28,206	974,400,000	0.0029%	0.0043%
November	869,500	22	39,523	974,400,000	0.0041%	0.0061%
December	591,300	22	26,877	974,400,000	0.0028%	0.0041%
<b>2022</b>						
January	8,723,700	21	415,414	974,400,000	0.0426%	0.0639%
February	814,100	17	47,888	974,400,000	0.0049%	0.0074%
March	13,572,200	23	590,096	974,400,000	0.0606%	0.0907%
April	1,064,300	18	59,128	974,400,000	0.0061%	0.0091%
May	4,772,900	20	238,645	974,400,000	0.0245%	0.0367%
June	2,727,100	21	129,862	974,400,000	0.0133%	0.0200%
July	35,534,200	20	1,776,710	1,113,600,000	0.1595%	0.2983%
August	5,255,000	23	228,478	1,559,040,000	0.0147%	0.0219%
September	20,371,682	21	970,080	1,559,040,000	0.0622%	0.0932%
October (Up to the Latest Practicable Date)	600,000	4	150,000	1,559,040,000	0.0096%	0.0144%

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

#### Notes:

- As stated in the announcement of the Company dated 22 July 2022, the result of the Open Offer on the basis of three offer shares for every five existing shares that the Open Offer shares were dispatched on 25 July 2022, therefore, the total issued Shares at the end of July 2022 is calculated by the weighted average of total issued Shares at the end of the month.
- The calculation is based on the average daily trading volume of the Shares divided by the total issued Shares at the end of each month or at the Latest Practicable Date as applicable.
- The calculation is based on the average daily trading volumes of the Shares divided by the total issued share capital of the Company held by the public (i.e. Shareholders other than the Offeror and the concert parties) at the end of each month or each period.

As illustrated in the table above, the average daily trading volume of the Shares during the Review Period recorded the lowest of approximately 26,877 Shares in December 2021 and highest of approximately 1,776,710 Shares in July 2022, representing approximately 0.0028% and 0.1595% of the total issued Shares as at the end of the relevant month. We consider such increase in trading volume may be due to market reaction regarding the Open Offer and there is no assurance that the trading volume could maintain at such level. The average daily trading volume of the Shares for the Review Period was 356,433 Shares, representing approximately 0.0229% of the total number of issued Shares as at the Latest Practicable Date.

Given the low historical trading volume of the Shares as stated above, 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 Shares in the open market without causing an adverse impact on the market price level of the Shares. Accordingly, the market trading price of the Shares may not necessarily reflect the proceeds that the Independent Shareholders can receive by the disposal of their Shares in the open market. The Offer, therefore, represents an assured opportunity for the Independent Shareholders, particular for those who hold a large number of the Shares, to dispose of some or all of them at the Offer Price if they so wish, without creating a significant downside pressure on the trading price of the Shares.

#### ***Market comparable analysis***

In order to further assess the fairness and reasonableness of the Offer Share, we have considered the price-to-book ratio (the “**P/B Ratio**”), the price-to-earnings ratio (the “**P/E Ratio**”) and dividend yield which are commonly adopted trading multiple analyses. The P/B ratio analysis is the assessment methodology that commonly adopted for evaluating the value of a company as a reference for the independent shareholders’ consideration. Given that the Group was loss-making for the year ended 31 December 2021, recorded net assets as at 30 June 2022 and no dividend was distributed for the years ended 31 December 2019, 2020 and 2021, the P/E Ratio analysis and dividend yield analysis are not applicable. We consider P/B Ratio to be an appropriate indicator of the fair values of the comparable companies which are comparable to the Company in terms of business with implied P/B Ratio (the “**Implied P/B Ratio**”) of the Offer Share using the Offer Price.

We note that the principal business of the Company is engaged in the manufacturing and sales of plywood. According to the 2021 Annual Report, 99% of the revenue of the Company generated from the manufacturing and sales of plywood, being the major reportable segment of the Company. Therefore, we have selected those companies which are engaged in the businesses similar to the wood product manufacturing business and forestry related business.

We have identified the following six comparable companies (“**Comparable Companies**”) which form an exhaustive list based on the criteria that (i) are listed on the Stock Exchange; and (ii) at least 50% of their revenue were generated from the wood product manufacturing business and forestry related business. Set out below is the table of the Comparable Companies and the relevant net asset value and P/B Ratio based on their respective market capitalisation as at the Latest Practicable Date and the latest published financial information of the Comparable Companies as extract from their annual report and/or interim report:

Stock Code	Company Name	Principal Business	Market Capitalisation (HK\$ million) (note 1)	Net asset value attributable to the shareholders of the Company (HK\$ million) (note 2)	P/B Ratio (time) (note 3)
00094.HK	Greenheart Group Limited	Engaged in in the timber business	161.38	832.81	0.19
00723.HK	Reliance Global Holdings Limited	Engaged in the sale of timber and wooden products	136.73	244.75	0.56
01822.HK (note 6)	China Wood International Holding Company Limited	Engaged in the trading of materials (primarily wood products), the provision of car rental services and money lending business	22.27	(1,312.01)	N/A (note 4)
01885.HK (note 6)	China Wood Optimization (Holding) Limited	Engaged in the processing, manufacturing and sale of its processed wood products	900.00	N/A (note 5)	N/A (note 5)
08191.HK	Hong Wei (Asia) Holdings Company Limited	Engaged in the manufacturing and sales of particleboards	34.75	269.63	0.13
08277.HK	Steed Oriental (Holdings) Company Limited	Engaged in the sourcing, manufacture and sales of plywood products and the trading of round logs	34.12	36.50	0.93
				Average	0.45
				Maximum	0.93
				Minimum	0.13
		Dan Sen Holding Group	70.16 (note 7)	40.24	1.74 (note 8)
				<b>Implied P/B Ratio of the Company</b>	<b>4.09</b> (note 9)

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

*Notes:*

1. The market capitalisation is calculated as the closing price of the shares of the respective company multiplied by their respective number of issued shares as at the Latest Practicable Date.
2. The net asset value refers to net assets attributable to owners of the company reported in the respective companies' latest published financial reports or results announcement as the case may be.
3. The P/B Ratio of the Comparables are calculated as their respective market capitalisation as at the Latest Practicable Date divided by their respective equity attributable to owners of the company according to their latest published interim/annual results/reports or announcements of unaudited net asset value.
4. The P/B Ratio is unavailable because of the net liabilities to owners of the company recorded for the latest published interim/annual results/reports or announcements.
5. China Wood Optimization (Holding) Limited (01885.HK) is in further delay in publication of the latest annual report and interim report, therefore the latest net asset value and P/B ratio are unavailable.
6. China Wood International Holding Company Limited (01822.HK) and China Wood Optimization (Holding) Limited (01885.HK) are currently suspended on the Stock Exchange, therefore they are being excluded from the Comparable Companies analysis.
7. The implied market capitalisation of the Company is calculated by multiplying the Offer Price with the number of Shares in issue as at the Latest Practicable Date.
8. The Implied P/B Ratio of the Company is calculated by implied market capitalization divided by the unaudited consolidated net asset value attributable to the Shareholders and the exchange rate of RMB¥1: HK\$1.1714 as at 30 June 2022 as extracted from Bloomberg was used.
9. The Implied P/B Ratio of the Company is calculated by implied market capitalization divided by the Adjusted NAV and the exchange rate of RMB¥1: HK\$1.1714 as at 30 June 2022 as extracted from Bloomberg was used.

Upon comparison with Comparable Companies, we noted that the P/B Ratios of the Comparable Companies range from the lowest P/B Ratio of approximately 0.13 time to the highest P/B Ratio 0.93 times, with an average being approximately 0.45 times.

Based on the Offer Price of HK\$0.045 and the unaudited consolidated net assets attributable to the shareholders per Share of approximately HK\$0.026 as at 30 June 2022. The implied P/B Ratio of the Company based on the Offer Price and net asset value as at 30 June 2022 is approximately 1.74 times, the implied P/B Ratio of the Company based on the Offer Price and Adjusted NAV as at 30 June 2022 is approximately 4.09 times. We noted that Implied P/B Ratio of the Company based on net asset value and Adjusted NAV are significantly higher than the P/B Ratios of the Comparable Companies. However, having considered that the Group is principally engaged in the manufacturing and sales of plywood and its business model is not asset-heavy and P/B Ratio is usually useful for evaluating the value of companies engaging in capital-intensive

businesses with plenty of assets on books and may not be meaningful for companies with few tangible assets, we consider the comparison of the Implied P/B Ratio with the P/B Ratio of the Comparable Companies that are also engaging in the wood product manufacturing business and forestry related business may not be indicative and can only be used as reference only.

Since the Implied P/B Ratio is higher than the maximum and average P/B Ratio of the Comparable Companies as stated above, implying that the Offer price gives a more favorable valuation from the Comparable Companies analysis perspective, we consider the Offer Price is fair and reasonable.

We wish to highlight that the above analysis is for reference purpose only. Independent Shareholders should consider the overall perspective of the various factors, including but not limited to the historical price performance of the Shares, the net asset value per Share of the Company and P/B Ratio of the Company implied by the Offer Price and the future prospect of the Company.

## **RECOMMENDATION**

When we come up with our recommendation, we have reviewed different factors of the Company and the Offer; and we would like to summarize those principal factors discussed as below:

- (i) the Group reported net losses for 1H2022, FY2022, FY2021 and FY2020 which suggest that the Group is operating in a challenging business environment, although the New Business Line is expected to provide a new source of revenue to the Group in the third quarter in 2022, it remains uncertain as to the future performance of the Group as a whole;
- (ii) the net asset value of the Group has been on a declining trend since FY2019;
- (iii) the independent auditor's opinion regarding multiple uncertainties relating to going concern issue of the Group as discussed above;
- (iv) the Offeror intended to continue the existing principal businesses of the Group and had no intention to discontinue the employment of the employees (save for changes in the composition of the Board) or to dispose of or re-deploy the assets of the Group other than those in its ordinary course of business, however, based on the background of Mr. Wong Tseng Hon, it appears that he does not have immediate experience in similar business of the Group and he has yet to conduct a detailed review of the operations of the Group and formulate business strategies of the Group's long term development, therefore, we are of the view that the Offeror may not have sufficient industry knowledge to capture the business opportunities within the competitive plywood industry and to enhance the overall development of the Group;

- (v) the Offer Price represents a premium of approximately 74.42% over the unaudited consolidated net asset value attributable to the Shareholders of approximately HK\$0.0258 per Share as at 30 June 2022, calculated by dividing the Group's unaudited consolidated net assets attributable to the Shareholders of approximately RMB34,354,000 (equivalent to approximately HK\$40,242,276 based on the exchange rate of RMB1: HK\$1.1714 as at 30 June 2022 as extracted from Bloomberg) as at 30 June 2022 by 1,559,040,000 Shares in issue as at the Latest Practicable Date;
- (vi) The Offer Price represent a premium of approximately 309.09% over the adjusted unaudited consolidated net asset value attributable to the Shareholders of approximately HK\$0.011 per Share as at 30 June 2022, calculated by dividing the Group's Adjusted NAV of approximately RMB\$14,647,000 (equivalent to approximately HK\$17,157,496 based on the exchange rate of RMB1: HK\$1.1714 as at 30 June 2022 as extracted from Bloomberg) as at 30 June 2022 by 1,559,040,000 Shares in issue as at the Latest Practicable Date. The calculation of the Adjusted NAV is set out in the section headed "Adjusted NAV per Share" in Appendix II to this Composite Document; and
- (vii) the trading volume of the Shares was low during the Review Period. Such low level of liquidity would suggest that any sale of a significant number of Shares in the market may result in downward pressure on the market price of the Shares. The Offer provides an exit alternative for the Independent Shareholders who would like to realise their investments in the Shares, especially for those holding a large number of the Shares, at the Offer Price.

Based on the above, we consider that the terms of the Offer are fair and reasonable so far as the Independent Shareholders are concerned. We advise the Independent Board Committee to recommend the Independent Shareholders to accept the Offer.

Independent Shareholders, in particular those who intend to accept the Offer, are reminded that there is no guarantee that the Share price will or will not sustain and will or will not be higher than the Offer Price during and after the period for the acceptance of the Offer. The Independent Shareholders who intend to accept the Offer are also reminded to closely monitor the market price and the liquidity of the Shares during the period for the acceptance of the Offer and shall, having regard to their own circumstances, investment objectives and risk preference, consider selling their Shares in the open market, instead of accepting the Offer, if the net proceeds from the sale of such Shares would be higher than that receivable under the Offer.

The Independent Shareholders should read carefully the procedures for accepting the Offer as detailed in the Composite Document, the appendices to the Composite Document and the acceptance form and transfer, if they wish to accept the Offer.

For those Independent Shareholders who are optimistic about the future prospects and operating performance of the Group and/or have a relatively long term investment horizon, they may retain their investment in the Shares by not accepting the Offer and are reminded to monitor the development of the Group, in particular the Offeror's business strategy, and any announcements of the Company during and after the Offer Period.

Yours faithfully  
For and on behalf of  
**Euto Capital Partners Limited**



**Wendy Liu**  
Director

*Ms. Wendy Liu ("Ms. Liu") is a licensed person registered with SFC and regarded as a responsible officer of Type 6 (advising on corporate finance) of Euto Capital Partners Limited. Ms. Liu has been a responsible officer of Type 6 (advising on corporate finance) regulated activities under SFO since 2014 and has participated in and completed various independent financial advisory transactions in Hong Kong.*