



**MERDEKA CORPORATE FINANCE LIMITED**

**领智企业融资有限公司**

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29 November 2023

*To: The Independent Board Committee and the Independent Shareholders of  
Yield Go Holdings Ltd.*

Dear Sirs or Madams,

**UNCONDITIONAL MANDATORY CASH OFFER FOR SHARES BY  
HEAD & SHOULDERS SECURITIES LIMITED  
FOR AND ON BEHALF OF YUAN FENG VENTURES LIMITED  
TO ACQUIRE ALL OF THE ISSUED SHARES  
OF YIELD GO HOLDINGS LTD.  
(OTHER THAN THOSE SHARES ALREADY OWNED OR AGREED  
TO BE ACQUIRED BY YUAN FENG VENTURES LIMITED  
AND PARTIES ACTING IN CONCERT WITH IT)**

**INTRODUCTION**

We refer to our appointment as the Independent Financial Adviser to the Independent Board Committee in relation to the Offer, details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the composite document dated 29 November 2023 (the “**Composite Document**”) jointly issued by the Offeror and Yield Go Holdings Ltd (the “**Company**”, collectively with its subsidiaries as the “**Group**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in this Composite Document unless the context requires otherwise.

As set out in the Board Letter, pursuant to a sale and purchase agreement dated 29 April 2022 entered into among Master Success as purchaser, the Vendor as vendor, Mr. Chen Yidong and Mr. Lin Zheng as purchaser’s guarantors and Mr. Man Hoi Yuen as the vendor’s guarantor, the Vendor agreed to sell 360,000,000 Sale Shares to Master Success at a total consideration of HK\$247,500,000. On completion, HK\$96,000,000 of the total consideration had been paid in cash and Master Success and Mr. Lin Zheng as joint issuers issued the Promissory Note in the principal amount of HK\$151,500,000 with interest of 8% per annum in favour of the Vendor, being the balance of the total consideration for the Sale Shares.

The Promissory Note was secured by the Share Charge executed by Master Success as chargor in favour of the Vendor as chargee over the Sale Shares. Under the Promissory Note, Master Success was required to pay the aggregate principal and interest amount of HK\$163,620,000 by way of a total of twelve instalments payment (including eleven monthly instalments payment in the amount of HK\$1,010,000 each and the final instalment payment in the amount of HK\$152,510,000) and the final instalment payment in the amount of HK\$152,510,000 was due on 28 April 2023.

Master Success and Mr. Lin Zheng as joint issuer of the Promissory Note had since 31 August 2022 (the 4th instalment payment) failed to make payment of the debt within the time limits stipulated in the Promissory Note and it constitutes an event of default under the Promissory Note. Despite several demands and notices have been given by the Vendor through its solicitors to Master Success and Mr. Lin Zheng requesting for immediate repayment of all the outstanding principal amount and interest accrued under the Promissory Note and a final notice issued by the Vendor through its solicitors on 28 August 2023 informing them that due to the breach of their payment obligations under the Promissory Note, the Vendor would enforce the Share Charge and dispose of the Sale Shares to a potential buyer, Master Success and Mr. Lin Zheng have failed to respond or make payment of the outstanding principal amount and interest accrued under the Promissory Note. In accordance with the provision of the Share Charge, the Share Charge becomes immediately enforceable and the Vendor is entitled to exercise the power of sale to dispose of the Sale Shares to purchaser identified by the Vendor without further notice to Master Success and Mr. Lin Zheng. As at the Latest Practicable Date, Master Success and Mr. Lin Zheng had repaid HK\$3,030,000 to the Vendor and there were outstanding principal of HK\$151,500,000 and interests of HK\$14,759,032.25, respectively, pursuant to the Promissory Note.

The Board was informed that before trading hours on 22 September 2023, the Vendor and the Offeror entered into the Sale and Purchase Agreement, pursuant to which the Vendor, as chargee under the Share Charge and by way of exercising its power of sale under the Share Charge, has agreed to sell, and the Offeror has agreed to purchase, 360,000,000 Sale Shares, representing 75.0% of the total issued share capital of the Company as at the date of the Joint Announcement, for an aggregate consideration of HK\$165,700,000, equivalent to approximately HK\$0.4603 per Sale Share, which was satisfied by the Offeror in full by the Offeror's own financial resources and a loan facility in the amount of HK\$70,000,000 granted by Ultra Accord Limited. The said loan matures on the date falling six months after the date of the loan agreement entered into between the Offeror and Ultra Accord Limited dated 22 September 2023 and the interest rate on the said loan was 30% per annum. On 3 October 2023, the Vendor through its solicitors issued a letter to Master Success informing about its exercise of the power of sale under the Share Charge and the sale of 360,000,000 Sale Shares to the Offeror. The Vendor confirms that up to the Latest Practicable Date, it has not received any objection from Master Success, Mr. Chen Yidong or Mr. Lin Zheng in respect of the Vendor's exercise of the power of sale under the Share Charge.

As at the Latest Practicable Date, the Company has 480,000,000 Shares in issue. The Company does not have any outstanding options, derivatives, warrants or securities which are convertible or exchangeable into Shares and has not entered into any agreement for the issue of such options, derivatives, warrants or securities which are convertible or exchangeable into Shares, as at the Latest Practicable Date.

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

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Chan Ka Yu, Dr. Lo Ki Chiu, Mr. Leung Wai Lim and Mr. Ma Hon Yiu, has been established in accordance with Rule 2.1 of the Takeovers Code to advise and give a recommendation to the Independent Shareholders as to whether the terms of the Offer are fair and reasonable and as to the acceptance of the Offer.

Mr. Chen Jian and Mr. Chen Yidong, both the non-executive Directors, are shareholders of Master Success, the chargor under the Share Charge and are deemed to have direct or indirect interest in the Offer. Therefore, both Mr. Chen Jian and Mr. Chen Yidong are excluded from being a member of the Independent Board Committee.

In our capacity as the Independent Financial Adviser, our role is to give an independent opinion to the Independent Board Committee as to whether the terms of the Offer are fair and reasonable and as to acceptance so far as the Independent Shareholders are concerned and such appointment has been approved by the Independent Board Committee.

#### **OUR INDEPENDENCE**

During the past two years, we were engaged as an independent financial adviser to the then independent board committee and the then independent shareholders of the Company in respect of the unconditional mandatory cash offer of the Company, details of which are set out in the composite document dated 22 June 2022 (the “**Previous Engagement**”). Apart from normal professional fees payable to us by the Company in connection with the Previous Engagement and the engagement to act as the Independent Financial Adviser, no arrangement exists whereby we will receive any fees and/or benefits from the Group.

Therefore, we are not connected with the directors, chief executive and substantial shareholders of the Company or the Offeror or controlling shareholder of the Offeror or any of their respective subsidiaries or their respective associates or any party acting, or presumed to be acting, in concert with any of them and as at the Latest Practicable Date, we did not have shareholding, directly or indirectly, in any of them (if applicable) and any of their respective associates and, as at the Latest Practicable Date, did not have any shareholding, directly or indirectly, in any entities within the Group or the Offeror or any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any entities within the Group and the Offeror. We are not aware of any relationships or interest between us and the Company, the Offeror and the controlling shareholder of the Offeror and the concert parties of any of them or any other parties that could be reasonably be regarded as

hindrance to our independence as defined under Rule 13.84 of the Listing Rules and Rule 2.6 of the Takeovers Code to act as the Independent Financial Adviser to the Independent Board Committee in respect of the terms of the Offer. We are eligible to give independent advice and recommendations on the terms of the Offers and as to acceptance thereof. Apart from normal professional fees payable to us in connection with this appointment as the Independent Financial Adviser to the Independent Board Committee, no arrangement exists whereby we will receive any fees from the Offeror and the Company, their subsidiaries, their associates or their respective substantial shareholders or associates.

#### **BASIS OF OUR ADVICE**

In formulating our advice and recommendation to the Independent Board Committee, we have relied on the statements, information, opinions and representations contained in or referred to in this Composite Document and the information and representations as provided to us by the Directors and the management of the Company (the “**Management**”). Our review procedures include, among others, review of the annual report of the Group for each of the year ended 31 March 2023 (the “**2023 Annual Report**”) and the year ended 31 March 2022 (the “**2022 Annual Report**”), the interim result announcement of the Group for the six months ended 30 September 2023 (the “**2023 Interim Announcement**”), this Composite Document, relevant announcements published by the Company, the industry trends of the Group’s principal business, the historical Share price performance and the trading liquidity of the Company, and comparable companies to the Company. We have assumed that all information and representations that have been provided by the Directors and the Management are true, complete and accurate in all material respects at the time when they were made and up to the date throughout the Offer Period and should there be any material changes thereto or of our opinion, Shareholders would be notified as soon as possible in accordance with Rule 9.1 of the Takeovers Code. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in this Composite Document were reasonably made after due enquiries and careful considerations.

We consider that we have been provided with sufficient information on which to form a reasonable basis for our opinion. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any fact or circumstance which would render the information provided and representations made to us untrue, inaccurate or misleading. We consider that we have performed all the necessary steps to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our opinion.

The Directors have confirmed that, to the best of their information and knowledge, they believe that no material fact or information has been omitted from the information supplied and that the representations made or opinions expressed have been arrived at after due and careful consideration and there are no other facts or representations the omission of which would make any statement in this Composite Document, including this letter, misleading.

While we have taken reasonable steps to satisfy the requirements under the Takeovers Code and the Listing Rules, we have not carried out any independent verification of the information, opinions or representations given or made by or on behalf of the Company or the Offeror as set out in this Composite Document, nor have we conducted an independent investigation into the business affairs or assets and liabilities of the Group or any of the other parties involved in the Offer.

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

This letter is issued for the information of the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Offer, and except for its inclusion in this Composite Document, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

## **PRINCIPAL FACTORS AND REASONS CONSIDERED**

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

### **1. Background information of the Group**

#### ***1.1 Principal business***

As set out in the Board Letter, the Company is incorporated in the Cayman Islands with limited liability and the Shares are listed on the Main Board of the Stock Exchange. The Company acts as an investment holding company and the Group is principally engaged in fitting-out services and supply of fitting-out materials. The fitting-out services include both (i) fitting-out works conducted on new buildings; and (ii) interior renovation works on existing buildings that involve upgrades, makeovers and demolition of existing works (collectively, being the “Fitting-Out Services”). As set out in the 2023 Annual Report, the Group only engages its business in Hong Kong.

## 1.2 Historical financial information

Set out below is a summary of the consolidated results of the Group (i) for the three financial years ended 31 March 2021 (“FY2021”), 31 March 2022 (“FY2022”), and 31 March 2023 (“FY2023”) as extracted from the 2022 Annual Report and the 2023 Annual Report, respectively; and (ii) for the six months ended 30 September 2022 (“HY2022”) and 2023 (“HY2023”) as extracted from the 2023 Interim Announcement.

**Table 1: Historical financial information of the Group**

	For the year ended 31 March			For the six months ended 30 September	
	2023	2022	2021	2023	2022
	HK\$'000 (Audited)	HK\$'000 (Audited)	HK\$'000 (Audited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
<b>Revenue</b>	<b>205,872</b>	<b>232,203</b>	<b>278,182</b>	<b>218,039</b>	<b>97,288</b>
– Fitting-Out Services (including fitting-out works and interior renovation works)	205,858	221,539	278,182	218,039	97,288
– Supply of fitting-out materials	14	10,664	nil	nil	nil
<b>Gross profit/(loss)</b>	<b>12,122</b>	<b>9,890</b>	<b>(28,141)</b>	<b>10,685</b>	<b>6,643</b>
<b>(Loss) and total comprehensive expense for the year attributable to equity holders of the Company</b>	<b>(18,663)</b>	<b>(4,020)</b>	<b>(32,515)</b>	<b>(350)</b>	<b>(4,653)</b>
	<b>As at 30 September</b>		<b>As at 31 March</b>		
	<b>2023</b>	<b>2023</b>	<b>2022</b>	<b>2021</b>	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
	(Unaudited)	(Audited)	(Audited)	(Audited)	
Non-current assets	1,391	1,962	1,298	2,339	
Current assets	207,705	193,268	206,548	208,210	
Current liabilities	95,872	28,101	75,957	73,842	
Non-current liability	392	53,947	44	842	
Net assets	112,832	113,182	131,845	135,865	

As demonstrated above, the Group derived more than 95% of its annual revenue from provision of the Fitting-Out Services for three consecutive financial years since FY2021. According to the 2023 Annual Report and as confirmed by the Management, these services are mainly offered to residential and commercial properties in the private sector in Hong Kong on a project basis.

*(i) For the six months ended 30 September 2023 and 2022*

During HY2023, the Group's total revenue increased by approximately HK\$120.8 million or 124.0% from approximately HK\$97.3 million for HY2022 to approximately HK\$218.0 million for HY2023, which is primarily attributable to the increase in number of sizeable projects undertaken by the Company and available in the market following the economic recovery after the COVID-19 pandemic during HY2023. As advised by the Management, these newly undertaken projects locate at Pak Shek Kok, Tin Wing Station and Siu Hong Station (collectively, being the "New Projects").

In alignment with the growth in revenue and the Group's consistent cost control efforts, the Group's gross profit also recorded approximately HK\$10.7 million, representing a year-on-year growth rate of approximately 62.1%, which is primarily attributable to increase in the New Projects undertaken by the Company during HY2023.

For the six months ended 30 September 2023, the Group recorded net loss of approximately HK\$0.4 million, representing a decrease of HK\$4.3 million or approximately 91.49% as compared to approximately HK\$4.7 million for HY2022. Such decrease of net loss was mainly due to increase in the revenue and gross profit following the continued overall economic recovery in Hong Kong.

As illustrated above, the net assets of the Group slightly decreased by approximately 0.3% from approximately HK\$113.2 million as at 31 March 2023 to approximately HK\$112.8 million as at 30 September 2023. As advised by the Management, decrease in net assets of the Group is primarily due to the combined effect of (i) increase in cash and bank balance of approximately HK\$20.2 million due to increase in operating cash inflow for HY2023; (ii) increase in trade and other payable of approximately HK\$13.8 million due to increase in the number of the Group's undertaken projects; and (iii) decrease in trade and other receivable of approximately HK\$7.0 million arising from increase in operating cash inflow collected from receivables.

*(ii) For the year ended 31 March 2023 and 2022*

The Group's total revenue decreased by approximately HK\$26.3 million or 11.3% from approximately HK\$232.2 million for FY2022 to approximately HK\$205.9 million for FY2023 which was mainly due to the decrease in the number of large-sized

projects undertaken and available in the market, caused by the fierce competition in private sector construction industry during FY2023 as advised by the Management.

The Group's gross profit increased by approximately HK\$2.2 million to approximately HK\$12.1 million for FY2023 from approximately HK\$9.9 million for FY2022. The gross profit margin for FY2023 was approximately 5.9% in comparison to approximately 4.3% for FY2022. The increase in gross profit and gross profit margin was attributable to the improvement in the overall construction costs control under the current fierce industry competition during FY2023. The Management advised that the further relaxation of social distancing measures by the Hong Kong Government in earlier 2023 allowed the Group to optimise its labour cost and streamline material delivery logistics, resulting in enhanced construction cost control management, and the favourable government policy also facilitates smoother execution of the Group's ongoing projects, contributing to an increase in both gross profit and gross profit margin ratio during FY2023.

Loss and total comprehensive expense attributable to equity holders of the Company increased by approximately HK\$14.7 million to approximately HK\$18.7 million for FY2023 from approximately HK\$4.0 million for FY2022. Such increase was primarily due to the increase in administrative and other operating expenses during the FY2023.

As illustrated above, the net assets of the Group decreased by approximately 14.1% from approximately HK\$131.8 million as at 31 March 2022 to approximately HK\$113.2 million as at 31 March 2023. As advised by the Management, decrease in net assets of the Group is primarily due to (i) decrease in the contract assets; and (ii) increase in the borrowing and interest payables.

*(iii) For the year ended 31 March 2022 and 2021*

During FY2022, the Group's revenue decreased by approximately HK\$46.0 million or 16.5% to approximately HK\$232.2 million (FY2021: approximately HK\$278.2 million). Such decrease was primarily due to (i) the decrease in the number of large-sized projects undertaken; and (ii) the adoption of a more competitive project pricing strategy by the Group in order to secure new projects (notwithstanding a relatively low gross profit margin) during FY2022 in response to the intense market competition.

The Group recorded a gross profit of approximately HK\$9.9 million for FY2022 from a gross loss of approximately HK\$28.1 million for FY2021. The turnaround in gross profit and gross profit margin was attributable to (i) the improvement in the overall construction costs control under the current fierce industry competition during FY2022; and (ii) gross loss recorded from a project undertaken by the Group at Tuen Mun (the "Tuen Mun Project") during FY2021 due to unexpected additional costs incurred. The Management explained that these unexpected additional costs primarily

consisted of construction costs incurred for the Tuen Mun Project to keep pace of the construction progress and to facilitate the handover to end-buyers, given the Tuen Mun Project had been prolonged and delayed under the COVID-19 pandemic, however, due to the Group's improvement in the overall construction costs control by spending more effort in monitoring of the execution progress of the ongoing projects, the Group recorded a turnaround in gross profit for FY2022 from a gross loss for FY2021.

Loss and total comprehensive expense attributable to equity holders of the Company for FY2022 decreased by approximately HK\$28.5 million to approximately HK\$4.0 million (FY2021: approximately HK\$32.5 million). Such decrease was primarily due to the improvement in cost control during FY2022. The Management advised that the Group periodically monitored execution progress of ongoing projects by comparing the actual cost with the budgeted cost to ensure cost for projects being under control.

As illustrated above, the net assets of the Group decreased by approximately 3.0% from approximately HK\$135.9 million as at 31 March 2021 to approximately HK\$131.8 million as at 31 March 2022. The Management advised that decrease in net assets of the Group was mainly attributable to decrease in cash and bank balance due to the operating cash outflow for FY2022.

## **2. Background and intention of the Offeror**

### ***2.1 Background information of the Offeror and parties acting in concert with it***

As set out in the "Letter from Head & Shoulders Securities", the Offeror is an investment holding company incorporated in Hong Kong with limited liability on 27 June 2023. As at the Latest Practicable Date, save for holding the Sale Shares, the Offeror did not engage in any other business activities or hold any other asset.

The Offeror, its ultimate beneficial owner, and parties acting in concert with any of them are third parties independent of, and not connected with, either the Company or any of its connected persons.

The Offeror is wholly and beneficially owned by Ms. Huang Hou. Ms. Huang Hou, aged 39, graduated from Guangdong Business College (now Guangdong University of Finance and Economics) with a bachelor's degree in business administration. She is currently pursuing a Master of Global Management (MGM) degree at ESC Clermont Graduate School of Management.

Ms. Huang Hou is a professional investor and has experience in investing in securities listed on the Stock Exchange. She is currently, through 中港通國際控股集團有限公司 (for transliteration purpose only, China Connect International Holding Group Company Limited), a corporation controlled by her, interested in approximately 24.4% of the issued

share capital of China Bozza Development Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the issued shares of which are listed on the Main Board of the Stock Exchange (stock code: 1069). Ms. Huang Hou is solely a Shareholder and will not take up any management role in the Group and the management of the business and operation of the Group will rest with the Board and the senior management of the Group. She is the sole director and sole shareholder of the Offeror.

## ***2.2 Intention of the Offeror in relation to the Group***

As set out in the “Letter from Head & Shoulders Securities”, following the close of the Offer, the Offeror intends that the Group will continue the existing principal business of the Group engaging in Fitting-out Services and will maintain the listing status of the Company. The Offeror will conduct a review of the business activities and assets 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, the Offeror may explore other business opportunities and consider whether any asset disposals, asset acquisitions, business rationalization, business divestment, fund raising, restructuring of the business and/or business diversification will be appropriate in order to enhance the long-term growth potential of the Group. As at the Latest Practicable Date, no investment or business opportunity has been identified nor have the Offeror and the Company entered into any agreement, arrangement, understanding or negotiation in relation to the injection of any assets or business into the Group, or disposal of or downsizing the Group’s existing business.

Save for the Offeror’s intention regarding the Group as set out above, the Offeror has no intention to redeploy any fixed assets of the Group (other than in the ordinary and usual course of business of the Group) or to discontinue the employment of the employees of the Group (except as set forth in the section headed “Proposed change of Board composition” below) as at the Latest Practicable Date.

## ***2.3 Proposed change of the Board composition***

As at the Latest Practicable Date, the Board is comprised of six executive Directors, two non-executive Directors and four independent non-executive Directors.

As set out in the “Letter from Head & Shoulders Securities”, it is intended that all of the executive Directors, non-executive Directors and independent non-executive Directors will resign with effect from the earliest time permitted under the Takeovers Code. The Offeror intends to nominate (i) Mr. Liang Wenzhi, Mr. Han Dongguang and Mr. Kang Ruipeng as executive Directors; and (ii) Mr. He Jian Yu, Mr. Zhou Di, Ms. Meng Xiaoying and Mr. Cheng Pak Lam as independent non-executive Directors (collectively, the “**Nominated Directors**”). Mr. Kang Ruipeng will also be nominated as one of the authorised representatives of the Company. Based on our discussion with the Management

and considering (i) the Group is principally engaged in the Fitting-out Services, the business model of which is simple and straight forward and the management of which does not require any intensive knowledge or expertise; (ii) Mr. Ho Chi Hong (“**Mr. Ho**”), an existing executive Director, will not hold other position in the Company other than being retained as a regular employee of the Group, and to undertake the director position of Hoi Sing Decoration Engineering Company Limited (“**Hoi Sing**”), a principal operating subsidiary of the Company, the revenue of which accounts for approximately 92.7% and approximately 97.8% of the Group’s revenue for each of FY2022 and FY2023, and Mr. Ho possesses 25 years of experience in the construction industry; (iii) Mr. Kang Ruipeng (“**Mr. Kang**”) possesses over 5 years of relevant experience in the property construction and development industry; and (iv) the directors to be newly appointed have extensive experience in business management, the directors to be appointed are capable of overseeing and managing the business of the Group with the assistance of Mr. Ho and existing employees under the Fitting-Out Services of the Group, and the proposed change of Board composition will not cause any material adverse impact on the business operation of the Group.

Pursuant to the loan agreement in relation to the loan facilities granted by Ultra Accord Limited (“**Ultra Accord**”) to the Offeror, the Offeror agreed to procure the appointment of a person nominated by Ultra Accord Limited as a Director with effect from the earliest time permitted under the Takeovers Code, the Listing Rules or other applicable regulations and for so long as any part of the loan facilities or interest thereon or any other amounts payable under the loan agreement or its security documents or any of them remain outstanding (“**UA Arrangement**”). Ultra Accord intends to nominate Mr. Zhou Danqing (“**Mr. Zhou**”) as a non-executive Director. The appointment of the above new executive Directors, non-executive Director and independent non-executive Directors will take effect after the posting of this Composite Document and further announcement will be made by the Company for the appointment of the new Directors. As referred to the “Letter from Head & Shoulders Securities”, Mr. Zhou, who obtained a bachelor’s degree in business administration from the Chinese University of Hong Kong, has over 13 years of experience in corporate finance and has been a manager of Ultra Accord since 2020. Besides, he is also a Chartered Financial Analyst, a Financial Risk Manager charter-holder, an associate member of both The Hong Kong Chartered Governance Institute and The Chartered Governance Institute in the United Kingdom and a member of the Association of Chartered Certified Accountants.

According to the “Letter from Head & Shoulders Securities” and our discussion with the Management, we understood that Mr. Ho, who joined the Group in May 2001 and possesses 25 years of experience in the construction industry, will be retained as a director of Hoi Sing, being a principal operating subsidiary of the Company, with no fixed term of his service with the Group after the change of Board composition.

Furthermore, based on our discussion with the Management regarding the Group’s business model, we noted (i) the Group’s activity and market segment are considered as simple given the Group principally executes its value proposition by providing the

Fitting-Out Services to property developers, contractors and property owners; (ii) the Group focuses its operation within Hong Kong only; (iii) there is no particular licence is required to be obtained by the Group for the commencement of fitting-out services projects; (iv) the Group strategically outsources labour-intensive works to its internal approved subcontractors in order to optimise the Group's business operation; and (v) adequate project managers will be involved to oversee execution process, we concur with the Company's view that the business model of the Fitting-Out Services of the Group is straight forward, and the management of this industry may not require much intensive knowledge or expertise.

Please refer to the "Letter from Head & Shoulders Securities" for more information.

### **2.3 Our view**

Based on the biographies of Ms. Huang and each Nominated Director as set out in the "Letter from Head & Shoulders Securities", it appears that (i) Ms. Huang does not have similar expertise in the Group's principal business, and she will not take up any management role in the Group; (ii) Mr. Kang has over 5 years' experience in property construction and development industry; and (iii) the remaining Nominated Directors has no immediate experience in managing similar business of the Group.

As the proposed appointment of Mr. Zhou as a non-executive Director until the loan facilities granted by Ultra Accord are fully settled is a commercial decision between the Offeror and Ultra Accord, which would enable Ultra Accord to secure the fulfilment of the Offeror's payment obligation under the loan facility granted by Ultra Accord to the Offeror for the settlement of part of the consideration for the Sale Shares, we consider the proposed appointment of Mr. Zhou to be reasonable.

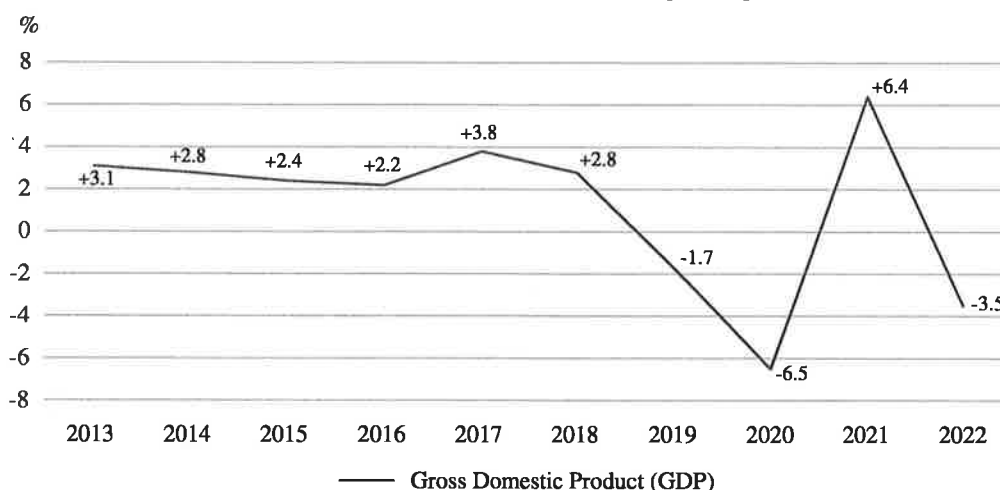
Despite we are not aware whether any long-term business development strategies for the Group have been formulated by the Offeror as at the Latest Practicable Date, after considering that (i) the Offeror intends that the Group will continue the existing principal business of the Group engaging in Fitting-Out Services; and (ii) Mr. Ho, who has 25 years of experience in construction industry and is familiar with the Groups' business operation, will be retained as a director of Hoi Sing, being the principal subsidiary of the Group, to assist the Nominated Directors to oversee and manage the business of the Group after the change of the Board, we believe that the Group would continue to maintain its established reputation and brand awareness in the Fitting-Out Services industry and long-term business relations with customers, work services providers and suppliers as well as customers' and suppliers' confidence in the Group's business operation after the change of the Board.

### 3. Prospects and outlook of the Group

Based on the above financial information of the Group and our discussion with the Management, it has been revealed that more than 95% of the Group's revenue is derived from the provision of the Fitting-Out Services for residential and commercial properties in private sector sites in Hong Kong. In light of this, we conducted research in relation to Hong Kong's economic environment and the performance of local construction market.

#### 3.1 Overview on macro-economic environment in Hong Kong

**Table 2: Percentage change of GDP in Hong Kong: 2013–2022**



(Source: official website of the Census and Statistics Department of Hong Kong)

We have discussed with and understand with the Management that the demand for services of the Group is dependent on the amount of construction activities in Hong Kong which can be impacted by various factors, for instance, government policies and the change in GDP growth rate.

The GDP growth rate in Hong Kong indicates the macro environment by measuring the total value of all goods and services produced over a specific period. In general, the Fitting-out Services is part of construction sector, which is served as one of the economic activities that contributes to the GDP as referred to the official website of the Census and Statistics Department of Hong Kong.

The above graph illustrates the considerable fluctuations in the percentage change of GDP in Hong Kong after 2018. The city has experienced a general trend of positive GDP growth with a range of approximately 2.2% and 3.8% from 2013 to 2018. However, the GDP recorded a notable and continuous decline in 2019 and 2020, reaching the largest drop in a decade of approximately 6.5% recorded in 2020. Nevertheless, there was a recovery in 2021 with the GDP bouncing back to a positive growth rate of roughly 6.4%, followed by a drop of approximately 3.5% in 2022.

According to a Half-Yearly Economic Report 2023 published by the Hong Kong Government in August 2023 (the “**Report**”), led by inbound tourism and private consumption, the Hong Kong economy continued to recover in the second quarter of 2023, though the momentum softened on the back of the strong rebound in the preceding quarter. Real GDP grew by 1.5% year-on-year, having increased by 2.9% in the preceding quarter. On 10 November 2023, the Hong Kong Government announced its estimate on full-year GDP growth for 2023 to 3.2%, which would be similar to the growth rate before 2018, indicating that the Hong Kong economy is gradually returning to normal.

On the other hand, the Hong Kong Government launched the Chief Executive’s 2023 Policy Address in October 2023 (the “**2023 Policy Address**”), outlining its plan to increase the number of public housing units, enhance land supplies and expedite urban renewal projects and so on. We consider these supportive policies would be able to stimulate demand within construction industry in Hong Kong in future, which in turn would increase demand for fitting-out services.

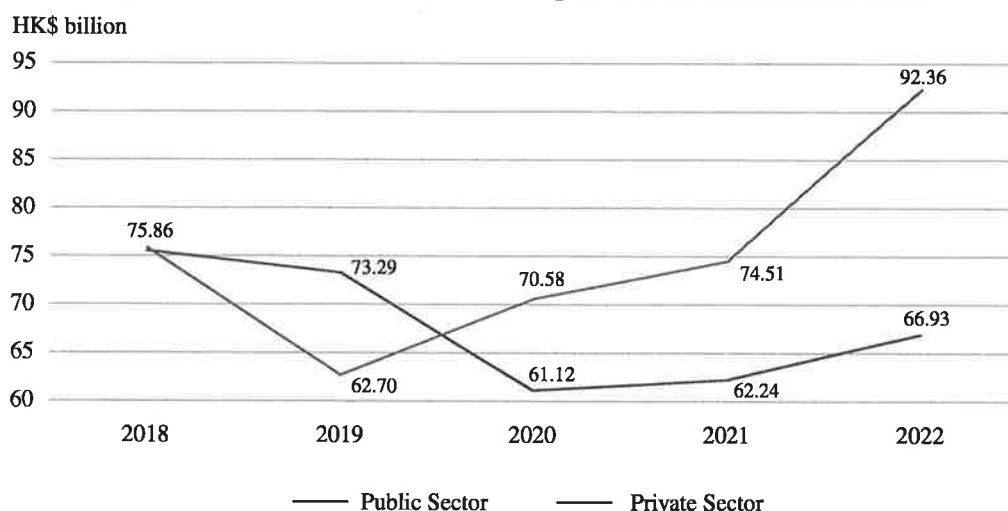
### 3.2 Overview on construction works in Hong Kong

**Table 3A: Total gross value of construction works performed by main contractors in Hong Kong: 2018–2022**

	2018	2019	2020	2021	2022
	HK\$	HK\$	HK\$	HK\$	HK\$
	billion	billion	billion	billion	billion
Private sector sites	75.6	73.3	61.1	62.2	66.9
Public sector sites	75.9	62.7	70.6	74.5	92.3
Construction works at locations other than sites	100.7	100.4	98.2	97.0	89.9
<b>Total</b>	<b>252.2</b>	<b>236.4</b>	<b>229.9</b>	<b>233.7</b>	<b>249.1</b>

(Source: official website of the Census and Statistics Department of Hong Kong)

**Table 3B: Trend of gross value of construction works performed by main contractors in private and public sector sites: 2018–2022**



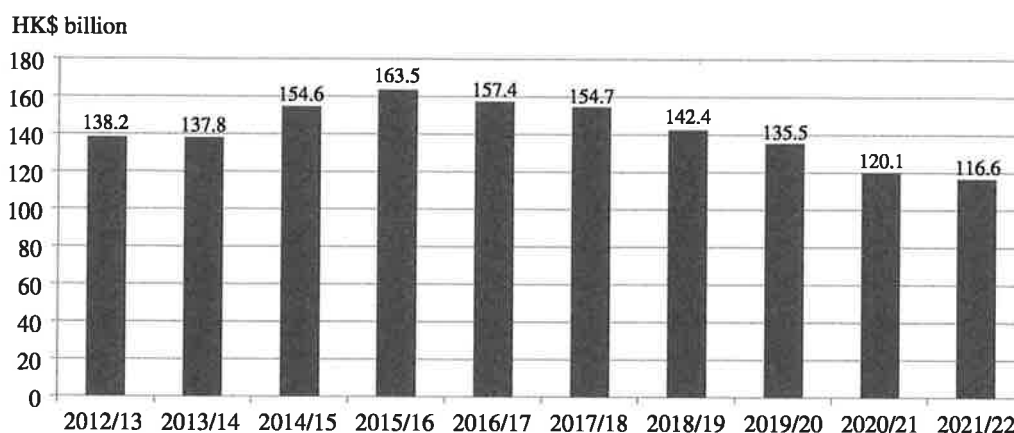
*(Source: official website of the Census and Statistics Department of Hong Kong)*

According to the Census and Statistics Department of Hong Kong (<https://www.censtatd.gov.hk>) and as illustrated in Table 3A above, the total gross value of construction works performed by main contractors in Hong Kong fluctuated over the past five years and has declined since 2018. It initially fell from around HK\$252.2 billion in 2018 to a low of approximately HK\$229.9 billion in 2020. There was a modest recovery in the subsequent years. The gross value saw a slight increase of around 1.65%, reaching approximately HK\$233.7 billion in 2021, followed by a further increase of approximately 6.6% to approximately HK\$249.1 billion in 2022.

The gross value of construction works performed by main contractors in Hong Kong constitutes the gross value of construction works in private sector construction sites, public sector construction sites and locations other than sites. According to the Census and Statistics Department of Hong Kong and as illustrated in Table 3B above, we observed a more pronounced recovery trend in the gross value of construction works performed on public sector sites after the outbreak of the COVID-19 pandemic compared to the private sector sites. The gross value of private sector sites dropped by approximately 3.0% in 2019 and approximately 16.6% in 2020 year-on-year, followed by a gradual recover with modest annual increase of approximately 1.8% and 7.5% in 2021 and 2022, respectively. In comparison, the gross value of construction works performed on public sector sites experienced a significant drop of approximately 17.4% in 2019. However, the public sector showed a stronger rebound compared to the private sector with a notable increase of nearly 12.6% in 2020 and 5.6% in 2021, followed by a more significant surge of approximately 24.0% in 2022.

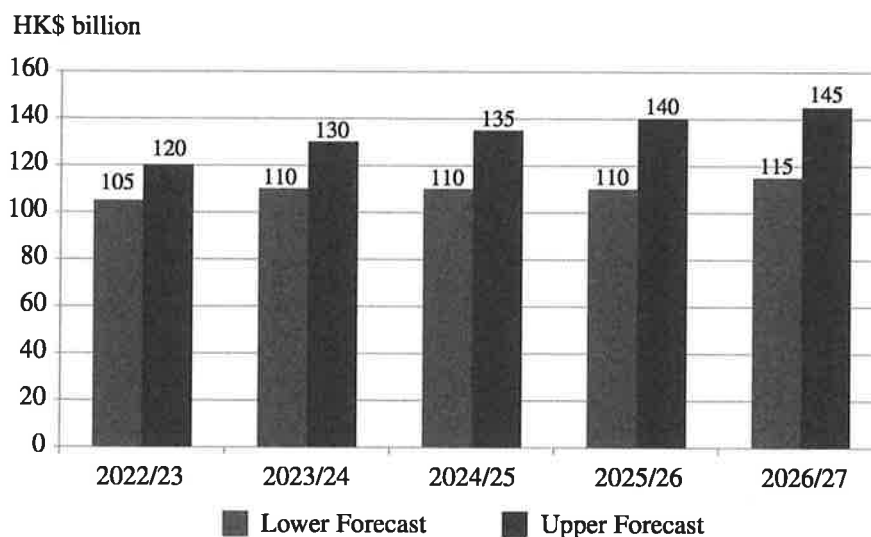
As a results of more inferior performance of private sector sites in recent years, the total gross value of construction works in private and public sector sites amounted to approximately HK\$66.9 billion and approximately HK\$92.4 billion in 2022. As such, we consider that the risk resilience and recovery performance of public sector sites for the post-pandemic period was considerably better than that of private sector sites which serves as the Group’s primary source of revenue.

**Table 4A: Historical Construction Expenditure in Private Sector: 2012–2022**



(Source: official website of Construction Industry Council)

**Table 4B: Mid-term Construction Expenditure Forecast in Private Sector  
Forecast by Construction Industry Council (“CIC”): 2023–2027**



(Source: official website of Construction Industry Council)

Furthermore, based on the data published in the official website (<https://www.cic.hk/eng/>) of CIC, which were summarised as Table 4A and Table 4B above, we noted total construction expenditure in private sector decreased from year 2015/16 and reached a decade low of approximately HK\$116.6 billion in year 2021/22. Looking forward, the CIC anticipates the total construction expenditure in private sector could return to the pre-pandemic's level in 2025/26 as stipulated in the CIC's upper forecast as shown in Table 4B. As such, the recovery of the private sector in construction industry which serves as the Group's primary source of revenue, to the pre-pandemic's level is expected to take time.

### **3.3 Our view**

Despite longer time may be required for the private sector sites construction industry in which the Group has been principally engaged to fully rebound as compared to public sector sites, after taking into account (i) the Hong Kong economy continues to recover with a projected GDP growth rate for 2023 to be approximately 3.2%, which is close to the level before the COVID-19 pandemic; and (ii) the supportive policies regarding construction industry outlined in the 2023 Policy Address would increase demand for construction services, which in turn would initiate demands for fitting-out services, hence, we consider that the prospects of construction industry and fitting-out industry would be positive in future.

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

Head & Shoulders Securities is, for and on behalf of the Offeror, making the Offer to acquire all the Offer Shares in compliance with the Takeovers Code on the following basis:

**For each Offer Share ..... HK\$0.4603 in cash**

The Offer Price of HK\$0.4603 per Offer Share is the same as the purchase price per Sale Share under the Sale and Purchase Agreement, which was arrived at after arm's length negotiations between the Offeror and the Vendor.

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

As at the Latest Practicable Date, 480,000,000 Shares were in issue and the Company does not have any outstanding options, derivatives, warrants or securities which are convertible or exchangeable into Shares and has not entered into any agreement for the issue of such options, derivatives, warrants or securities which are convertible or exchangeable into Shares.

The Offer Shares to be acquired under the Offer shall be fully paid and free from all encumbrances and together with all rights and benefits attached thereto, including but not limited to the right to receive in full all dividends and other distributions, if any, declared, made or paid on or after the date on which the Offer is made, that is, the date of despatch of this

Composite Document. As at the Latest Practicable Date, the Company has not declared any dividend which is outstanding and not yet paid and the Company does not intend to declare, make or pay any dividend or other distributions prior to close of the Offer.

#### **4.1 Analysis on the Offer Price**

The Offer Price of HK\$0.4603 per Offer Share represents:

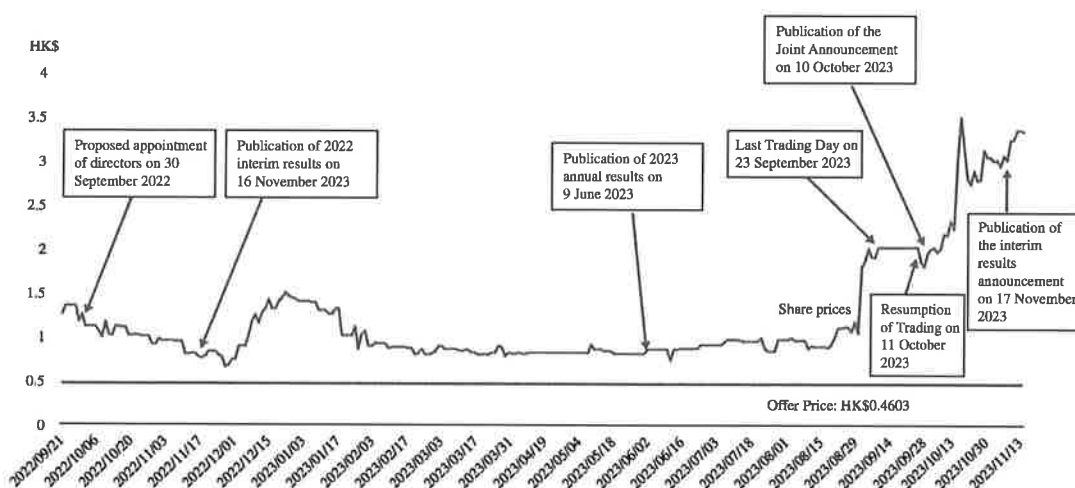
- (i) a discount of 86.01% to the closing price of HK\$3.29 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) a discount of approximately 76.87% to the closing price of HK\$1.99 per Share as quoted on the Stock Exchange on 21 September 2023, being the Last Trading Day;
- (iii) a discount of approximately 75.98% to the average closing price of approximately HK\$1.916 per Share as quoted on the Stock Exchange for the last five consecutive trading days immediately prior to and including the Last Trading Day;
- (iv) a discount of approximately 70.66% to the average closing price of approximately HK\$1.569 per Share as quoted on the Stock Exchange for the last 10 consecutive trading days immediately prior to and including the Last Trading Day (the “**10-day Average Price**”);
- (v) a discount of approximately 60.18% to the average closing price of approximately HK\$1.156 per Share as quoted on the Stock Exchange for the last 30 consecutive trading days immediately prior to and including the Last Trading Day (the “**30-day Average Price**”);
- (vi) a discount of approximately 55.35% to the average closing price of approximately HK\$1.031 per Share as quoted on the Stock Exchange for the last 60 consecutive trading days immediately prior to and including the Last Trading Day (the “**60-day Average Price**”);
- (vii) a premium of approximately 95.29% over the net asset value per Share (the “**NAV per Share**”) of approximately HK\$0.2357, calculated based on the Group’s audited consolidated net asset value attributable to the Shareholders as at 31 March 2023 of approximately HK\$113.2 million, divided by the number of issued Shares as at the Latest Practicable Date; and

- (viii) a premium of approximately 95.79% over the NAV per Share of approximately HK\$0.2351, calculated based on the Group's unaudited consolidated net asset value attributable to the Shareholders as at 30 September 2023 of approximately HK\$112.8 million, divided by the number of issued Shares as at the Latest Practicable Date.

#### 4.2 Historical performance of the Shares

Set out below is the chart showing the daily closing price of the Shares as quoted on the Stock Exchange during the period commencing from 21 September 2022, being the twelve-month period prior to the Last Trading Day (i.e. 21 September 2023), up to and including the Latest Practicable Date (the "Review Period"):

**Table 5: Share prices performance during the Review Period**



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

Note: The trading of the Shares on the Stock Exchange was suspended at 9:00 a.m. on 22 September 2023 pending the release of the Joint Announcement. Trading of the Shares on the Stock Exchange was resumed at 9:00 a.m. on 11 October 2023.

We have reviewed the movements in the closing price of the Shares for the Review Period. We consider that the length of the Review Period to be reasonably long enough to illustrate the relationship between the historical trend of the closing price of the Shares and the Offer Price.

The Shares have been trading above the Offer Price during the entire Review Period. The lowest and highest closing price of the Shares during the Review Period were HK\$0.65 per Share recorded on 30 November 2022 and HK\$3.45 per Share recorded on 30 October 2023, as quoted on the Stock Exchange. The average daily closing price of the Shares during the Review Period is approximately HK\$1.20 per Share. The Offer Price of HK\$0.4603 per Share represents (i) a discount of approximately 29.2% to the lowest closing price of HK\$0.65 per Share; (ii) a discount of approximately 86.7% to the highest closing price of HK\$3.45 per Share; and (iii) a discount of approximately 61.6% to the average daily closing price of approximately HK\$1.20 per Share during the Review Period.

#### *Pre-Announcement Period*

During the period under review from 21 September 2022 to 21 September 2023 (being the Last Trading Day) (the “**Pre-Announcement Period**”), the closing prices of the Shares has fluctuated and experienced an overall upward trend. The lowest and highest closing price of the Shares during the Pre-Announcement Period were HK\$0.65 per Share recorded on 30 November 2022 and HK\$1.99 per Share recorded on 21 September 2023 respectively as quoted on the Stock Exchange. The Offer Price of HK\$0.4603 per Share represents (i) a discount of approximately 29.2% to the lowest closing price of HK\$0.65 per Share; (ii) a discount of approximately 76.9% to the highest closing price of HK\$1.99 per Share; and (iii) a discount of approximately 52.6% to the average daily closing price of approximately HK\$0.97 per Share during the Pre-Announcement Period.

As depicted in the above chart, the Share price saw a decline from at HK\$1.24 on 21 September 2022 to HK\$0.65 on 30 November 2022 before rebounding to HK\$1.48 on 29 December 2022. Subsequently, the Share price followed a general downward trend decreasing from HK\$1.48 on 28 December 2022 to HK\$1.03 on 13 September 2023. However, the sudden surge in Share price occurred on 14 September 2023 taking the Share price to HK\$1.77 and it further climbed to HK\$1.99 on 21 September 2023, which is the highest Share price during the Pre-Announcement Period. We have observed that the Company (i) published an announcement in relation to proposed appointment of directors and non-compliance with R3.10A of the Listing Rules on 30 September 2022; (ii) announced the interim results of the Company for the six months ended 30 September 2022 on 18 November 2022; and (iii) announced the annual results of the Company for the year ended 31 March 2023 on 9 June 2023.

We have made enquired with the Management and were advised that save for the publication of announcements of the Company as described above, the Directors were not aware of any specific reasons which may have an impact of the fluctuations of Share prices during the Pre-Announcement Period.

### *Post-Announcement Period*

During the period under review from 11 October 2023 up to and including the Latest Practicable Date, (the “**Post-Announcement Period**”), the Offer Price of HK\$0.4603 per Share represents (i) a discount of approximately 74.1% to the lowest closing price of HK\$1.78 per Share; (ii) a discount of approximately 86.7% to the highest closing price of HK\$3.45 per Share during the Post-Announcement Period; and (iii) a discount of approximately 82.8% to the average daily closing price of approximately HK\$2.68 per Share during the Post-Announcement Period. We believe that the aforesaid recent surge in the Share prices was likely linked to the market reaction to the Joint Announcement, which might be a temporary and unsustainable market reaction to the Offer.

Despite the Offer Price represents a premium of approximately 95.29% over the NAV per Share of HK\$0.2357 as at 31 March 2023 and approximately 95.79% over the NAV per Share of HK\$0.2351 as at 30 September 2023, such premium is considered less representative in accessing the fairness and reasonableness of the Offer Price as compared to the day-to-day market value of the Shares given that the Company’s share price has been trading at a premium over its respective audited NAV per Share during the entire Review Period, reflecting that investors might not have valued the Shares based solely on the underlying value of the Group’s assets. Instead, the investors might take into account other factors in valuing the Shares, including but not limited to historical price performances, macroeconomic environment, industry trend and peers’ performance. Based on the fact that the Shares have been trading above the Offer Price during the entire Review Period, we are of the view that the Offer Price is unattractive and therefore not fair and not reasonable.

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

### **4.3 Historical trading volume of the Shares**

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

**Table 6: Trading volume of the Shares during the Review Period**

<b>Month/Period</b>	<b>Total trading volume for month/period (number of Shares)</b>	<b>Number of trading days during the month (days)</b>	<b>Average daily trading volume for month/period (number of Shares)</b>	<b>Percentage of average daily trading volume to total number of the Shares in issue as at the respective month or period (note 3)</b>	<b>Percentage of average daily trading volume to total number of the Shares held by public Shareholders as at the respective month or period (note 4)</b>
<b>2022 (note 1)</b>					
21–30 September	52,000	8	6,500	0.0014%	0.0054%
October	380,000	20	19,000	0.0040%	0.0158%
November	1,312,000	22	59,636	0.0124%	0.0497%
December	1,068,000	20	53,400	0.0111%	0.0445%
<b>2023</b>					
January	252,000	18	14,000	0.0029%	0.0117%
February	2,874,000	20	143,700	0.0299%	0.1198%
March	272,000	23	11,826	0.0025%	0.0099%
May	280,000	17	16,471	0.0034%	0.0137%
June	42,000	21	2,000	0.0004%	0.0017%
July	312,000	21	14,857	0.0031%	0.0124%
August	288,000	20	14,400	0.0030%	0.0120%
1 September– Last Trading Day (i.e. 21 September)	4,981,700	13	383,208	0.0798%	0.3193%
11 October–31 October	12,567,000	14	898,286	0.1871%	0.7486%
1 November– 24 November	5,234,000	18	290,778	0.0606%	0.2423%
			<b>Maximum</b>	0.1871%	0.7486%
			<b>Minimum</b>	0.0004%	0.0017%
			<b>Average</b>	0.0274%	0.1096%

Source: [www.hkex.com.hk](http://www.hkex.com.hk)

*Notes:*

1. The Review Period commenced on 21 September 2022.
2. The trading of the Shares on the Stock Exchange was suspended at 9:00 a.m. on 22 September 2023 pending the release of the Joint Announcement. Trading of the Shares on the Stock Exchange was resumed at 9:00 a.m. on 11 October 2023.
3. Based on the number of Shares in issue as at the respective month or period, where applicable, as disclosed in the monthly returns of the Company.
4. Based on the number of Shares held by public Shareholders as at the respective month or period, where applicable, as disclosed in the monthly returns of the Company.

As illustrated above, the average daily trading volume of the Shares as a percentage of the total number of the Shares in issue as at the Latest Practicable Date ranged from the lowest of approximately 0.0004% in May 2023 to the highest of approximately 0.1871% recorded in October 2023, with an average daily trading volume throughout the whole Review Period of approximately 0.0274% of the total number of issued Shares as at the Latest Practicable Date. If only Shares held by public Shareholders (the “Free Float Shares”) are considered in calculating the percentage of average daily trading volume of the Shares as at the respective month/period under the Review Period, the average trading volume of the Free Float Shares during the Review Period ranged from the lowest of approximately 0.0017% in May 2023 to the highest of approximately 0.7486% recorded in October 2023, with an average daily trading volume throughout the whole Review Period of approximately 0.1096% of the total number of Free Float Shares as at the Latest Practicable Date. Therefore, the trading volume of the Shares was generally thin in the Review Period and illiquid in the open market.

During the Pre-Announcement Period, we noted that the average daily trading volume of the Shares in early to mid-September 2023 was relatively high as compared to that of the rest of the other months during the Pre-Announcement Period. We have discussed with the Management regarding the relatively high trading volume of the Shares comparing to that of the rest of the other months during the Pre-Announcement Period and were confirmed that the Company is not aware of any particular reason that led to the higher trading volume of the Shares. Save for the particularly high daily trading volume of the Shares in September 2023 as mentioned above, the average daily trading volume of the Shares was fairly thin during the Pre-Announcement Period.

Notwithstanding the increase in trading volume in the Post-Announcement Period, taking into account the fact that the daily trading volume of the Shares during the Post-Announcement Period was approximately 0.1160% of the total issued Shares as at the Latest Practicable Date and approximately 0.4638% of the Free Float Shares as at the Latest Practicable Date, we are of the view that the trading volume of Shares can be considered generally low, and in normal circumstances, if the Independent Shareholders are to dispose of a large number of Shares in the market, it may exert downward pressure on the market price of Shares.

Given the overall thin historical trading volume of the Shares during the entire Review Period, the Independent Shareholders (especially those with relatively sizeable shareholdings) may find it difficult to dispose of a large volume of Shares in the open market at a fixed cash price within a short period of time without exerting downward pressure on the Shares price. The Independent Shareholders are also advised to consider to sell their Shares in the open market instead of accepting the Offer given the closing prices of the Shares had been staying well above the Offer Price during the entire Review Period, after taking into account the possible pressure on the Share price when selling in bulk, if net proceeds from such sale of Shares would exceed the net amount receivable under the Offer. Independent Shareholders should also be aware that they may have to sell their Shares in the market by batches if they do not accept the Offer, given the average daily trading volume of the Shares in the preceding year from September 2022 ranged from approximately 2,000 Shares to approximately 898,286 Shares as shown in the table above.

#### **4.4 Comparable Analysis**

In order to further assess the fairness and reasonableness of the Offer Price, we have considered the price-to-book ratio (the “**P/B Ratio**”), the price-to-sales ratio (the “**P/S Ratio**”), the price-to-earnings ratio (the “**P/E Ratio**”) and dividend yield which are commonly adopted trading multiple analyses in assessing the financial valuation of a company as the data for calculating the ratios can be obtained fairly and directly from publicly available information and reflect the value of the companies determined by the open market. Given that the Group was loss-making for the last three consecutive financial years, and no dividend was distributed for the last financial year, the P/E Ratio analysis and dividend yield analysis are not applicable.

As understood from the IPO prospectus of the Company dated 13 December 2018, we recognised that construction sector encompassing fitting-out services is inherently characterised by a high operating expense. Substantial capital is required for project initiation and its operating management. Consequently, we believe the P/S Ratio is not an appropriate valuation benchmark in assessing the fairness and reasonableness of the Offer Price as it ignores the cost structure of a company.

As the Group is principally engaged in provision of the Fitting-Out Services and it had plenty of contract assets and trade and other receivables on the book which accounted for approximately 88.7% of its total asset value and approximately 153.0% of its net asset value as at 31 March 2023, respectively. As advised by the Management, contract assets in the financial statements of the Company arises when the Company has completed a provision of service but has not received the underlying service fee until the relevant work has been certified by a relevant qualified expert. As such, contract assets are in essence delayed cash inflows to the Company which is similar to receivables. It is understood that the assets of companies that are principally engaged in provision of fitting-out works and interior renovation works, i.e. the Company and the Comparable Companies, largely consist of clients’ payment obligations such as contract assets and/or receivables as described above, which represents an indicator of the financial status and a basic evaluation of a

construction company as contract assets and/or receivables can be seen as the anticipated cash inflow of such company. On the other hand, as confirmed by the Management, the direct labour cost of the Group accounts for an insignificant portion of total cost of the Group for FY2023, in light of the aforesaid, we consider the Company is not a labour-intensive company and therefore the P/B Ratio analysis is the most suitable valuation method for our analysis.

Based on the Offer Price of HK\$0.4603 per Offer Share and the total number of issued Shares of 480,000,000 as at the Latest Practicable Date, the Company is valued at approximately HK\$220.9 million. The P/B Ratio of the Company implied by the Offer Price is approximately 1.95 times (the “**Implied P/B Ratio**”) based on the audited consolidated net asset value of the Company of approximately HK\$113.2 million as at 31 March 2023.

We have attempted to identify the comparable companies (the “**Comparable Companies**”) which are (i) listed on the Main Board of the Stock Exchange, (ii) principally engaged in the provision of fitting-out works and interior renovation works that involve upgrades, makeovers and demolition etc., with over 75% of total revenue for latest full financial year being generated from the aforesaid businesses in Hong Kong; (iii) with market capitalisation of not more than HK\$500 million as at the Latest Practicable Date; and (iv) with the percentage of the aggregate amount of contract assets and receivables comparing to total assets of not less than 50% as referred to its latest published interim/annual report. Based on the above selection criteria, we have identified three Comparable Companies which are exhaustive based on our research on the website of the Stock Exchange and financial analytical software Factset.

We also note that P/B Ratio of Dimmi Life Holdings Limited (stock code: 1667, “**Dimmi Life**”) calculated on the market capitalization as at the Latest Practicable Date and its latest net asset value was approximately 18.72 times, which is substantially higher than the range of P/B Ratio of other Comparable Companies, and with a view to ensure the Comparable Companies reflect the general market conditions, Dimmi Life is considered as an outlier and was excluded from our analysis. The two Comparable Companies (the “**Selected Comparable Companies**”) are included in our analysis.

The following table set out the details of the Comparable Companies:

**Table 7: Details of the Comparable Companies**

No.	Company name (Stock code)	Principal activities	Market capitalisation as at the Latest Practicable Date		P/B Ratio <i>(times)</i> <i>(Note 2)</i>
			<i>(Note 1)</i>	Net asset value <i>(HK\$' million)</i> <i>(Note 2)</i>	
1.	Dimmi Life Holdings Limited (1667.HK)	Principally engaged in (a) construction and engineering service (including (i) building construction services; (ii) alteration, addition, fitting-out works and building services; and (iii) repair and restoration of historic buildings in Hong Kong; (b) property development and investment; and (c) development, marketing and sale of lifestyle products in the PRC	192.0	10.3	18.72 <i>(Note 4)</i>
2.	FDB Holdings Limited (1826.HK)	Provision of contracting services for, among others, alteration and addition works and maintenance works	99.9	48.9	2.04
3.	Superland Group Holdings Limited (368.HK)	Provision of fitting-out services as well as repair and maintenance services to residential and commercial properties	288.0	834.0	0.35
				<b>Minimum</b> <i>(Note 4)</i>	0.35
				<b>Maximum</b> <i>(Note 4)</i>	2.04
				<b>Average</b> <i>(Note 4)</i>	1.19
	<b>The Company</b>		<b>220.9</b> <i>(Note 3)</i>	<b>113.2</b>	<b>1.95</b>

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

*Notes:*

1. The market capitalisation of the Comparable Companies was calculated based on the closing share prices and the total issued shares of the Comparable Companies as at the Latest Practicable Date.
2. The P/B Ratio was based on the then market capitalisation of the Comparable Companies as at the Latest Practicable Date, divided by the net asset value of the Comparable Companies as stated in their respective latest available annual report or interim report.
3. The market capitalisation of the Company is calculated based on the Offer Price of HK\$0.4603 and the number of issued Shares as at the Latest Practicable Date (i.e. 480,000,000 Shares).
4. Given the P/B Ratio of Dimmi Life is substantially higher than the range of P/B Ratio of other Comparable Companies and with a view to ensure the Comparable Companies reflect the general market conditions, Dimmi Life is considered as an outlier and was excluded from our analysis.

As set out in above table, the P/B Ratios of the Selected Comparable Companies ranged from approximately 0.35 times to approximately 2.04 times with an average of approximately 1.19 times. The Implied P/B Ratio of approximately 1.95 times is within the range but higher than the average of the P/B Ratios of the Selected Comparable Companies.

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

As stated in the “Letter from Head & Shoulders Securities” contained in this Composite Document, 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 the 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.

## RECOMMENDATION

Notwithstanding that the Offer Price represents a higher P/B Ratio as compared with the average of the Selected Comparable Companies, having considered below factors and reasons:

- (a) the Offer Price is unattractive, given (i) the closing prices of the Shares has been trading above the Offer Price during the entire Review Period; (ii) and the Offer Price represents discount to the average closing price during each of the Pre-Announcement Period and the entire Review Period, the 10-day Average Price, the 30-day Average Price and the 60-day Average Price, respectively; and (iii) the Offer Price represents a discount of approximately 86.01% to the closing price of the Shares of HK\$3.29 as at the Latest Practicable Date;
- (b) despite the Offer Price represents a premium of approximately 95.29% and approximately 95.79% over the NAV per Share as at 31 March 2023 and 30 September 2023, respectively, we believe that the premium of the Offer Price over the NAV per Share is less representative in assessing the fairness and reasonableness of the Offer Price as compared to the day-to-day market value of the Shares given that the Company's share price has been trading at a premium over its audited NAV per Share for the entire Review Period, reflecting that investors might not have valued the Shares based solely on the underlying value of the Group's assets but considering various factors including but not limited to historical price performances, macroeconomic environment, industry trend and peers' performance;
- (c) the Group's revenue has been decreasing and the Group recorded net loss for the past three financial years, yet its latest financial performance has been substantially improved for HY2023 with an 124.0% increase in revenue and a 91.49% decrease in net loss for HY2023 due to the consistent cost control efforts and economic recovery in Hong Kong after the COVID-19 pandemic. On the other hand, with the Group's consistent cost control efforts, overall operating performance of the Group has also improved making the Group to record increasing gross profit for HY2023, FY2023 and FY2022 as compared to a gross loss for FY2021. As mentioned in the 2023 Interim Announcement, the Group believes that it is well-placed to thrive in Hong Kong's evolving economic landscape;
- (d) although majority of the Nominated Directors has no immediate experience in managing similar business of the Group, after considering (i) the Offeror intends that the Group will continue the existing principal business of the Group engaging in Fitting-Out Services; and (ii) Mr. Ho, who has years of experience in the construction industry and is familiar with the Group's operation, will be retained as a director of Hoi Sing, a principal operating subsidiary of the Group, to assist the Nominated Directors to oversee and manage the business of the Group, the Group would be able to continue maintaining its established reputation and brand awareness in the

Fitting-Out Services industry and long-term business relations with customers, work services providers and suppliers as well as customers' and suppliers' confidence in the Group's business operation; and

- (e) despite time is required for the private sector sites construction industry in which the Group have been principally engaged, to fully rebound, after taking into account gradual recovery in local economy and the recent supportive government policies which in turn would increase demand for fitting out services, the prospects of construction industry and fitting-out industry would be positive in future;

we consider that the Offer is not fair and not reasonable. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders not to accept the Offer.

Nevertheless, the Independent Shareholders should also note that (i) there is no guarantee that the Share price will sustain at a level above the Offer Price and/or after the Offer Period; and (ii) the Independent Shareholders (regardless to their amount of shareholdings) may not be able to realise their investments in the Shares at a price higher than the Offer Price when they are going to dispose of their partial or entire holdings. In such circumstance, the Offer might provide an exit alternative for the Independent Shareholders who would like to realise their investments in the Shares at the Offer Price of HK\$0.4603. However, for those Independent Shareholders who intend to accept the Offer, we would remind them to closely monitor the market price and liquidity of the Shares during the Offer Period, and having regard to their own circumstances, consider selling the Shares in the open market, instead of accepting the Offer, if the net proceeds from such sale of Shares would be higher than that receivable under the Offer. For those Independent Shareholders who intend to dispose of large blocks of Shares in the open market, we would also remind them of the possible difficulty in disposing of their Shares in the open market without creating downward pressure on the market prices of the Shares as a result of the thin trading in the Shares.

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

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



**Wallace So**  
*Managing Director*

*Mr. Wallace So is a Responsible Officer under the SFO to engage in Type 6 (advising on corporate finance) regulated activity and has over 10 years of experience in corporate finance.*