

21 September 2023

To the Independent Board Committee

Dear Sir or Madam,

**MANDATORY UNCONDITIONAL CASH OFFERS BY
SPACE SECURITIES LIMITED
FOR AND ON BEHALF OF THE OFFEROR TO ACQUIRE
ALL THE ISSUED SHARES AND CANCEL ALL OUTSTANDING
SHARE OPTIONS OF HANG YICK HOLDINGS COMPANY
LIMITED (OTHER THAN THOSE ALREADY OWNED OR
AGREED TO BE ACQUIRED BY THE OFFEROR AND
PARTIES ACTING IN CONCERT WITH HIM)**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee in respect of the terms of the Offers, details of which are set out in this Composite Document dated 21 September 2023, of which this letter forms part. Terms used in this letter shall have the same meanings as defined in this Composite Document unless the context requires otherwise.

The Agreement

Reference is made to the letter from the Board of this Composite Document (“**Board Letter**”) and the Joint Announcement whereby the Company and the Offeror jointly announced that on 23 June 2023, the Purchaser, the Vendor and the Vendor Guarantors entered into the Agreement pursuant to which the Vendor has agreed to sell and the Purchaser has agreed to acquire a total of 513,155,000 Sale Shares for a total cash consideration of HK\$85,594,254 (equivalent to HK\$0.1668 per Sale Share). The Agreement was unconditional and Completion took place on the date of the Agreement on 23 June 2023.

The Offers

Immediately before Completion, the Purchaser and parties acting in concert with him were not interested in any Shares and other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company. Immediately upon Completion and as at the Latest Practicable Date, the Purchaser and parties acting in concert with him are interested in 513,155,000 Shares, representing approximately 66.85% of the total issued share capital of the Company. Pursuant to Rule 26.1 of the Takeovers Code, the Offeror (the Purchaser) will therefore be required to make a mandatory unconditional cash offer to acquire all the issued Shares (other than those already owned or agreed to be acquired by the Offeror and the Offeror Concert Parties). The Offeror is also required to make the Option Offer for the cancellation of all outstanding Options pursuant to Rule 13 of the Takeovers Code.

Principal terms of the Offers

Space Securities, for and on behalf of the Offeror, is making the Offers to acquire all of the Offer Shares and for cancellation of the outstanding Options in accordance with the Takeovers Code on the following basis:

The Share Offer

For every Offer Share HK\$0.1668 in cash

The Share Offer Price of HK\$0.1668 per Offer Share under the Share Offer equals to the purchase price per Sale Share paid by the Purchaser under the Agreement.

The Option Offer

For cancellation of each Option with exercise price
of HK\$1.53 HK\$0.001 in cash

The Independent Board Committee comprising all the independent non-executive Directors has been established to make a recommendation to the Offer Shareholders and the Optionholders as to whether the Offers are fair and reasonable and as to acceptance of the Offers. We, Nuada Limited, have been appointed to advise the Independent Board Committee as to the fairness and reasonableness of the Offers and as to acceptance of the Offers.

OUR INDEPENDENCE

As at the Latest Practicable Date, we are not associated or connected with the Company, the Vendor, the Offeror and the Offeror Concert Parties, Mr. Lee Ka Ho, the Lender, their respective 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 date of our appointment as the Independent Financial Adviser, save for this appointment as the Independent Financial Adviser in respect of the Offers, there were no other engagements between us and the Group or the Offeror or any party acting, or presumed to be acting, in concert with any of them. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Group or the Offeror, their respective controlling shareholders or any party acting, or presumed to be acting, in concert with any of them. Accordingly, we are considered eligible to give independent advice on the Offers.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee, we have relied on the accuracy of the statements, information, opinions and representations contained or referred to in this Composite Document and the information and representations provided to us by the Directors and the management of the Company (the “**Management**”). We have assumed that all statements, information and representations provided by the Management, for which they are solely responsible, are true and accurate at the time when they were provided and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors or the Offeror (as the case may be) in this Composite Document were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in this Composite Document, or the reasonableness of the opinions expressed by the Company, the Offeror, their respective advisers, the Directors, which have been provided to us.

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

The Offeror accepts full responsibility for the accuracy of the information contained in this Composite Document (other than the information relating to the Group, the Vendor, the Vendor Guarantors and parties acting in concert with any of them), and confirm, having made all reasonable enquiries, that to the best of his knowledge, opinions expressed in this Composite Document (other than the opinion expressed by the Board) have been arrived at

after due and careful consideration and there are no other facts not contained in this Composite Document, the omission of which would make any statement contained in this Composite Document misleading.

Our review and analysis were based upon, among other things, (i) the Joint Announcement in relation to the Offers; (ii) this Composite Document; (iii) certain published information from the public domain including announcements in respect of Comparable Companies (as defined as “**Comparable Company(ies)**” below under the paragraph headed “4. Analysis of the Share Offer Price” in this letter); (iv) the annual report of the Company (“**Annual Report 2021**”) for the financial year ended 31 March 2021 (“**FY2021**”); (v) the annual report of the Company (“**Annual Report 2022**”) for the financial year ended 31 March 2022 (“**FY2022**”); and (vi) the annual report of the Company (“**Annual Report 2023**”) for the financial year ended 31 March 2023 (“**FY2023**”).

We consider that we have been provided with sufficient information and have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion. We have not, however, carried out any independent verification of the information provided, nor have we conducted any independent investigation into the business and affairs of the Group. We have not considered the taxation implication on the Group, the Offer Shareholders or the Optionholders as a result of the Offers. Where information in this letter has been extracted from published or otherwise publicly available sources, the sole responsibility of us is to ensure that such information has been correctly and fairly extracted, reproduced or presented from the relevant stated sources and not be used out of context. Our opinion is necessarily based on the financial market and other conditions in effect and the information made available to us as at the Latest Practicable Date, and the Offer Shareholders or the Optionholders will be notified of any material changes (if any) to such statements, information, opinions and/or representations as soon as possible in accordance with Rule 9.1 of the Takeovers Code.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation with regards to the Offers, we have taken into account the following principal factors and reasons:

1. Information on the Group

(a) Principal business of the Group

With reference to the Board Letter, the Company is a company incorporated in the Cayman Islands with limited liability, the Shares of which are currently listed on the Main Board (stock code: 1894). The Group is principally engaged in provision of steel and metal engineering services in Hong Kong, ranging from design, manufacture, supply and installation of steel and metal products for construction projects, under the brand “Hang Yick (恒益)”.

(b) Financial information of the Group

The table below summarises the financial results of the Group for FY2021, FY2022 and FY2023 respectively as extracted from the Annual Report 2022 and the Annual Report 2023.

Table 1: Consolidated income statement of the Group

	For the year ended		
	31 March 2023	31 March 2022	31 March 2021
	HK\$'000	HK\$'000	HK\$'000
	(Audited)	(Audited)	(Audited)
		(Re-presented)	
		(Note 1)	
Continuing operations			
Revenue	184,904	203,598	209,608
Direct costs	(162,547)	(160,289)	(191,713)
Gross profit	22,357	43,309	17,895
Profit/(loss) for the year attributable to the owners of the Company	(21,707)	19,678	(81,620)
— <i>Arises from continuing operations</i>	1,758	17,795	Not applicable
— <i>Arises from discontinued operation</i>	(23,465)	1,883	Not applicable

Notes:

1. As detailed in the Annual Report 2023, given the departure of certain former key management personnel who were responsible for the operational, financial and accounting matters of the PRC business subsidiary, HY China Investment Company Limited (“HY China”), a wholly-owned subsidiary of the Company, and its subsidiaries (“HY China Group”) in 2020, and whom the Group were unable to contact after their departure, the Board were unable to access more specific business records and supporting explanations of the HY China Group’s accounting records. Therefore, the Board has resolved to voluntarily wind up HY China on 18 January 2023. HY China Group was therefore de-consolidated from the consolidated financial statements of the Group with effect from 24 February 2023 in accordance with the requirements of HKFRS 10 Consolidated Financial Statements. The operation of HY China Group was discontinued on the same date. According to the Management and note 43 to the consolidated financial statements of the Annual Report 2023, the comparative figures in the consolidated statement of profit or loss and other comprehensive income have been re-presented to conform to the operation of HY China Group classified as discontinued in FY2023.

Financial performance for FY2021

The Group recorded a revenue of approximately HK\$209.61 million for FY2021, which is stable when compared to that for the year ended 31 March 2020 (“**FY2020**”) (i.e. approximately HK\$200.38 million). The gross profit of the Group decreased from approximately HK\$49.79 million for FY2020 to approximately HK\$17.90 million for FY2021 mainly due to the increase of direct costs of the Group from approximately HK\$150.60 million for FY2020 to approximately HK\$191.71 million for FY2021 and such increase was mainly attributable to (i) the outbreak of COVID-19 and the quarantine policies implemented in the PRC for FY2021 and the Group had decided to switch parts of fabrication works from the PRC to Hong Kong in order to complete the projects on hand without delay which increased the labour costs of the Group; and (ii) the sizeable steel and metal engineering service projects of the Group were in final stage during FY2021 and more site workers were required, which also caused the increase in the labour costs according to the Annual Report 2021 and the Management.

The Group recorded a change from a profit for the year attributable to the owners of the Company of approximately HK\$12.25 million for FY2020 to a loss for the year attributable to the owners of the Company of approximately HK\$81.62 million for FY2021. According to the Annual Report 2021 and the Management, such turnaround was mainly due to occurrence of loss on the Incident Transactions (as defined below) of approximately HK\$111.98 million for FY2021 (i.e. FY2020:nil). Based on the information available up to the date of the Annual Report 2021, the Board has considered that there was high uncertainty to recover the outstanding balances and hence a provision of an aggregate of approximately HK\$111.98 million have been made for FY2021.

With reference to the Annual Report 2021, three former executive directors of the Company (the “**Involved Former Directors**”) were arrested for suspected market misconduct and fraud by the SFC, the Commercial Crime Bureau of the Hong Kong Police Force and the Independent Commission Against Corruption in April 2021 and July 2021 respectively. The Involved Former Directors were alleged to have conspired to use bogus transactions to embezzle funds of the Company (the “**Alleged Bogus Transactions**”). Upon consideration of the findings of the independent forensic investigation performed by a special investigation committee (“**SIC**”) established by the Board and assisted by an independent forensic accountant, the SIC identified that the Alleged Bogus Transactions and certain payments of prepayments, deposits and advances transactions that occurred during the years ended 31 March 2019 and 2020 (collectively, the “**Incident Transactions**”) related to irregularities which involved the Involved Former Directors, a former director (who is not one of the Involved Former Directors as mentioned above according to the Management), a former employee and/or their business associates.

In addition, as detailed in the Independent Auditor's Report of the Annual Report 2021, given the departure of certain former key management personnel who were responsible for the operational, financial and accounting matters of the PRC business subsidiary, HY China and its subsidiaries in 2020, and whom the Group was unable to contact after their departure, the Board was unable to access more specific business records and supporting explanations of the HY China Group's accounting records (collectively "**Insufficient Accounting Records**").

As the auditor of the Company ("**Auditor**") was not able to obtain sufficient appropriate audit evidence in relation to the Incident Transactions and Insufficient Accounting Records, the Auditor did not express an opinion on the consolidated financial statements of the Group for FY2021. Please refer to the Independent Auditor's Report as set out in the Annual Report 2021 and Appendix II of the Composite Document for further details.

After discussion with the Auditor regarding the Incident Transactions and Insufficient Accounting Records, we understand that the Auditor already stated their findings in the Independent Auditor's Report in the Annual Report 2021. Given the disclaimer of opinions issued by the Auditor, we are of the view that there is uncertainty in the accuracy of the financial information of the Company for FY2021.

Financial performance for FY2022

The Group recorded a revenue of approximately HK\$203.60 million for FY2022, which is stable when compared to that of FY2021 (HK\$209.61 million). Nevertheless, the gross profit of the Group increased substantially from approximately HK\$17.90 million for FY2021 to approximately HK\$43.31 million for FY2022, representing an increase of approximately 141.96%. According to the Annual Report 2022 and the Management, such increase was mainly due to (i) recognition of revenue of one of the Group's projects which has high gross profit margin during FY2022; and (ii) decrease in direct cost by 16.39% from approximately HK\$191.71 million in FY2021 to approximately HK\$160.29 million in FY2022 as a result of cost control approach adopted during FY2022. The Group recorded a change from a loss for the year attributable to the owners of the Company of approximately HK\$81.62 million for FY2021 to a profit for the year attributable to the owners of the Company of approximately HK\$19.68 million for FY2022. According to the Annual Report 2022 and the Management, the improvement was mainly due to (a) the aforesaid improvement in gross profit; and (b) without the one-off impairment loss on the Incident Transactions for FY2022 as compared to that of FY2021 (i.e. approximately HK\$111.98 million for FY2021).

As the Auditor was not able to obtain sufficient appropriate audit evident in relation to the Incident Transactions and Insufficient Accounting Records, the Auditor did not express an opinion on the consolidated financial statements of the Group for FY2022. Please refer to the Independent Auditor's Report as set out in the Annual Report 2022 and Appendix II of the Composite Document for further details.

After discussion with the Auditor regarding the Incident Transactions and Insufficient Accounting Records, we understand that the Auditor already stated their findings in the Independent Auditor's Report in the Annual Report 2022. Given the disclaimer of opinions issued by the Auditor, we are of the view that there is uncertainty in the accuracy of the financial information of the Company for FY2022.

Financial performance for FY2023

The Group recorded a revenue from continuing operations of approximately HK\$184.90 million for FY2023, representing a decrease of approximately 9.18% as compared with that of approximately HK\$203.60 million for FY2022. According to the Annual Report 2023 and the Management, such decrease was mainly due to the delay in the progress of the Group's steel and metal engineering service projects because of more strict cross border transportation restrictions as compared to FY2022 caused by a new wave of COVID 19 outbreak. The work schedule of projects on hand of the Group in Hong Kong had also been delayed during the second half of 2022 due to a new wave of COVID-19 outbreak. In March 2022, the Development Bureau granted a maximum period of six months as extension of time for all government work contracts in progress (https://www.devb.gov.hk/en/publications_and_press_releases/press/index_id_11160.html). Accordingly, less works of the Group were carried out in the second half of FY2023. The gross profit from continuing operations of the Group decreased substantially from approximately HK\$43.31 million for FY2022 to approximately HK\$22.36 million for FY2023, representing a decrease of approximately 48.37%. The gross profit margin from continuing operations of the Group also decreased from approximately 21.27% for FY2022 to approximately 12.09% for FY2023. According to the Annual Report 2023 and the Management, such decrease in gross profit from continuing operations was mainly due to (i) decrease in the revenue of the Group as mentioned above; (ii) the Group has launched new steel and metal engineering services projects during FY2023 and in general the gross profit of these projects during their early stage would be relatively low as compared to gross profit of these projects during their later stage; (iii) the increase in transportation costs as a result of the more strict cross border transportation restrictions as mentioned above; (iv) the increase in labour cost in terms of wages of construction workers mainly due to shortage of construction workers in Hong Kong; and (v) the Group accepted small quantity orders and short terms projects which have lower profit margin.

With reference to note 15 to the consolidated financial statements of the Group for FY2023 in the Annual Report 2023 and according to the Management, the profit attributable to the owners of the Company arises from discontinued operation of approximately HK\$1.88 million for FY2022 and the loss attributable to the owners of the Company arises from discontinued operation of approximately HK\$23.47 million for FY2023 were wholly generated from the operation of HY China.

The Group recorded loss for the year attributable to owners of the Company of approximately HK\$21.71 million for FY2023. If we do not take into account the loss for the year attributable to owners of the Company arises from discontinued operation of the Group of approximately HK\$23.47 million for FY2023, the profit for the year attributable to owners of the Company (arises from continuing operations) would be approximately HK\$1.76 million for FY2023 which represents a decrease of approximately 90.11% when compared to that for FY2022 (approximately HK\$17.8 million). With reference to the Annual Report 2023 and the Management, such decrease in profit was mainly due to the decrease in revenue from continuing operations from approximately HK\$203.60 million in FY2022 to approximately HK\$184.90 million in FY2023 and decrease in gross profit from continuing operations of the Group from approximately HK\$43.31 million for FY2022 to approximately HK\$22.36 million for FY2023.

The Board had resolved to voluntarily wind up HY China on 18 January 2023 and HY China were de-consolidated from the consolidated financial statements of the Group with effect from 24 February 2023. The operation of HY China and its subsidiaries was discontinued on the same date. As the Auditor was not able to obtain sufficient appropriate audit evidence in relation to the Incident Transactions and Insufficient Accounting Records, the Auditor did not express an opinion on the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows of the Group for FY2023. The Auditor was in the opinion that the consolidated statement of financial position give a true and fair view of the consolidated financial position of the Group as at 31 March 2023 as the Auditor believed that the audit evidence they have obtained is sufficient and appropriate to provide a basis for their opinion on the consolidated financial position as at 31 March 2023. Please refer to the Independent Auditor's Report as set out in the Annual Report 2023 and Appendix II of the Composite Document for further details. After discussion with Auditor regarding the Incident Transactions and Insufficient Accounting Records, we understand that the Auditor already stated their findings in the Independent Auditor's Report in the Annual Report 2023. Given the disclaimer of opinions issued by the Auditor, we are of the view that there is uncertainty in the accuracy of the financial information of the Company for FY2023.

Table 2: Financial position of the Group

	As at 31 March 2023 (HK\$'000) (Audited)	As at 31 March 2022 (HK\$'000) (Audited)
Current assets	167,330	168,831
— Inventories	22,831	34,879
— Trade receivables	12,054	20,943
— Other receivables, deposits and prepayments	3,974	5,777
— Contract assets	46,518	50,234
— Current tax assets	2,567	2,075
— Cash and cash equivalents	79,386	54,923
Current liabilities	18,842	30,809
— Trade and other payables and accruals	14,276	26,143
— Contract liabilities	518	260
— Lease liabilities	300	66
— Bank borrowing	3,740	3,960
— Current tax liabilities	8	380
Non-current assets	22,166	24,301
— Property, plant and equipment	12,566	14,793
— Right-of-use assets	3,943	3,786
— Financial asset at fair value through profit or loss	5,545	5,343
— Deposits	27	379
— Deferred tax assets	85	—
Net current assets	148,488	138,022
Total assets	189,496	193,132
Non-current liabilities	556	240
— Provisions	161	161
— Lease liabilities	395	—
— Deferred tax liabilities	—	79
Total liabilities	19,398	31,049
Net assets	170,098	162,083
Equity attributable to owners of the Company	170,098	194,529

As stated in the Annual Report 2023, as at 31 March 2023, current assets of the Group amounted to approximately HK\$167.33 million as compared with that of approximately HK\$168.83 million as at 31 March 2022. The inventories of the Group decreased from approximately HK\$34.88 million as at 31 March 2022 to approximately HK\$22.83 million as at 31 March 2023. However, the cash and cash equivalents increased from approximately HK\$54.92 million as at 31 March 2022 to approximately HK\$79.39 million as at 31 March 2023, according to the consolidated statement of cash flows in the Annual Report 2023, (i) the net cash generated

from operating activities of the Group increased from approximately HK\$15.22 million for FY2022 to approximately HK\$27.52 million for FY2023; and (ii) net cash used in financing activities decreased from approximately HK\$40.76 million for FY2022 to approximately HK\$597,000 for FY2023. The improvement of the abovementioned cash inflow and outflow offset the turnaround from net cash generated from investing activities of approximately HK\$34.96 million for FY2022 to net cash used in investing activities of approximately HK\$2.68 million for FY2023.

The non-current assets of the Group slightly decreased from approximately HK\$24.30 million as at 31 March 2022 to approximately HK\$22.17 million as at 31 March 2023, mainly due to the decrease of property, plant and equipment from approximately HK\$14.79 million as at 31 March 2022 to approximately HK\$12.57 million as at 31 March 2023.

The current liabilities of the Group decreased from approximately HK\$30.81 million as at 31 March 2022 to approximately HK\$18.84 million as at 31 March 2023, which was mainly due to the decrease of trade and other payables and accruals from approximately HK\$26.14 million as at 31 March 2022 to approximately HK\$14.28 million as at 31 March 2023. As the decrease of total liabilities exceeded the decrease of total assets, the net assets of the Group increased from approximately HK\$162.08 million as at 31 March 2022 to approximately HK\$170.10 million as at 31 March 2023. The equity attributable to owners of the Company decreased from approximately HK\$194.53 million as at 31 March 2022 to approximately HK\$170.10 million as at 31 March 2023, which was mainly due to the Group's reserves decreased from approximately HK\$186.85 million as at 31 March 2022 to approximately HK\$162.42 million as at 31 March 2023 as a result of the loss for the year of the Group attributable to owners of the Company of approximately HK\$21.71 million for FY2023 according to the consolidated statement of changes in equity set out in Annual Report 2023.

(c) Business outlook of the Group

According to the Management, for FY2023, over 65% of the contract sum of steel and metal engineering service projects on hands of the Group are from public sector. With reference to the Chief Executive's 2022 Policy Address (the "**Policy Address**") (https://www.policyaddress.gov.hk/2022/public/pdf/policy/policy-full_en.pdf), the Hong Kong Government estimated 360,000 public housing units will be built before 2032. The Chief Executive also committed to further boosting public housing supply partly by invoking land resumption to resume certain private land. However, the distribution of public housing production in the coming decade will be uneven and only about one-third of the abovementioned 360,000 units are projected to be completed before 2028 according to the Policy Address. Despite the target of Hong Kong government to increase the building projects in the long term future and the Group secured three major steel and metal works public housing project located at Shek Pai Wan,

Kwun Tong and Sheung Shui with contract sum of more than HK\$10 million each for FY2023 according to the paragraph headed “Management Discussion and Analysis — Review of operations and business development” under the Annual Report 2023, most of projects on hands of the Group are from public sector as mentioned above and generally by tenders, the Group’s performance relied on successful quotation or tenders of potential projects which are not recurrent in nature and there is no guarantee that the Group would secure new projects.

According to the Management, for FY2022 and FY2023, over 40% of the direct costs of the Group consists of labour costs and with reference to the Annual Report 2023, over 50% of headcounts of the Group were working in Hong Kong as at 31 March 2023. In order to understand the future demand of labour of construction industry which affects the direct costs of the Group, we made reference to the Report on Manpower Projection to 2027 issued by the Census and Statistics Department of Hong Kong Government (“**Census and Statistics Department**”) in 2019 (https://www.censtatd.gov.hk/en/data/stat_report/product/B1050016/att/B1050016E2019XXXE0100.pdf), it is projected that the manpower requirements of construction sector would increase at an average annual rate of approximately 0.5% from actual manpower requirement of approximately 348,600 in 2017 to projected manpower requirement of approximately 367,400 in 2027. According to the “Report on Annual Earnings and Hours Survey” released by Census and Statistics Department in March 2023 (https://www.censtatd.gov.hk/en/data/stat_report/product/B1050014/att/B10500142022AN22B0100.pdf), the median monthly wage of construction industry increased from approximately HK\$23,200 during May to June in 2021 to approximately HK\$23,900 during May to June in 2022, which represents a growth of approximately 3.02%. Accordingly, the shortage of construction workers and the increasing wages of construction workers could increase the labour cost of the Group in the short future.

In July 2023, the Development Bureau of Hong Kong Government (“**Development Bureau**”) has issued Labour Importation Scheme for the Construction Sector (“**Labour Importation Scheme**”) in order to address the manpower shortage of the construction sector in Hong Kong (https://www.devb.gov.hk/en/construction_sector_matters/css/index.html), however, Development Bureau stated that the eligibility for application of the Labour Importation Scheme are primarily applies to public sector construction works contracts with contract value no less than HK\$1 billion. According to the Management, the Group did not secure any public construction project that have contract value of more than HK\$1 billion in the past and they are not eligible to join the Labour Importation Scheme as mentioned above at current stage. Accordingly, we are of the opinion that it is unlikely that the Labour Importation Scheme will be beneficial to the Group to solve the labour shortage concern at current stage. Based on the increasing demand of manpower for construction industry and increasing wage for construction industry workers as mentioned

above, we can foresee that the construction costs of the Group is in an increasing trend in the short future and continuously affect the financial performance of the Group.

Having considered (i) only one-third out of the estimated 360,000 public housing units are projected to be built in the short term by 2028 according to the Policy Address; (ii) the increasing demand for manpower and increasing labour cost due to shortage of construction workers may continuously affect the financial performance of the Group in the near future; (iii) the Group secured only three major steel and metal works public housing projects located at Shek Pai Wan, Kwun Tong and Sheung Shui with contract sum of more than HK\$10 million each for FY2023 according to the paragraph headed “Management Discussion and Analysis — Review of operations and business development” under the Annual Report 2023; (iv) the Group’s performance relied on successful quotation or tenders of potential projects which are not recurrent in nature and there is no guarantee that the Group would secure new projects; (v) the worsened financial performance of the Group for FY2023 as compared to FY2022 as the revenue (i.e. from approximately HK\$203.60 million for FY2022 to approximately HK\$184.90 million for FY2023), gross profit margin (i.e. from approximately 21.27% for FY2022 to approximately 12.09% for FY2023) and profits for the year attributable to the owners of the Company arose from the continuing operations of the Group (i.e. from approximately HK\$17.80 million for FY2022 to approximately HK\$1.76 million for FY2023) decreased from FY2022 to FY2023 as mentioned above; and (vi) there is uncertainty in the accuracy of the financial information of the Company for FY2023 given the disclaimer of opinions issued by the Auditor, we remain cautious about the prospects and outlook of the Group and we are of the opinion that the Offers provide an opportunity for the Offer Shareholders to realise their investment in the Company for cash should the Offeror encounter challenges and the performance of the Group be negatively impacted by the upcoming uncertainties.

2. Information on the Offeror and the Offeror’s intention regarding the Group

(a) Information on the Offeror

As stated in the Board Letter, immediately upon Completion and as at the Latest Practicable Date, the Offeror and the Offeror Concert Parties are interested in a total of 513,155,000 Shares, representing approximately 66.85% of the entire issued share capital of the Company.

The Purchaser is a PRC citizen who has vast experience in accounting and financial fields for listed companies and other entities in the PRC for over 20 years. The Purchaser graduated from Jingmen Vocational University* 荊門職業大學 majoring in accountancy in 1998 and from Wuhan University majoring in Administrative Management in 1998. In July 1998, the Purchaser joined 瀋陽藍田股份有限公司, Shenyang Lantian Company Limited* (“**Shenyang Lantian**”), a company listed on the Shanghai Stock Exchange (stock code: 600709) in 1996, as

an assistant officer at the treasury office, he was transferred to the securities trading department in December 1998 and was promoted to the position of the head of the secretariat in March 2001. In March 2006, the Purchaser left Shenyang Lantian and joined 浙江紹興越昌紡織有限公司 Zhejiang Shaoqing Yuechang Knitting Company Limited* as an assistant to the Chairman. The Purchaser joined 中國藍田(集團)總公司 China Lantian Group Limited* in May 2008 as an assistant to the president until June 2009. The Purchaser joined 浙江蘭溪匯豐貴金屬交易中心, Zhejiang Lanqi Huifeng Precious Metal Exchange* as an assistant to the Chairman. In April 2016, the Purchaser joined 浙江義烏協佳網絡科技有限公司 Zhejiang Yiwu Xiejia Network Technology Co., Ltd.* as a general manager. In August 2018, the Purchaser began to invest in construction sector in China. In September 2021, the Purchaser joined 仙桃展朋電子材料有限公司 Xiantao Zhanpeng Electronic Materials Co., Ltd.* as a deputy general manager responsible for manufacture base planning and development. In March 2023, the Purchaser joined 浙江鑫銳再生資源有限公司 Zhejiang Xinrui Renewable Resources Co., Ltd.* as a deputy general manager, the company has a very scalable business of metal recycling in China. As stated in the Board Letter, as at the Latest Practicable Date, the Purchaser does not hold any directorship in any listed companies in Hong Kong or the PRC.

Based on the background information of the Offeror as stated above, we are of the view the Offeror did not have relevant working experience to the existing business of the Group and contribution to the existing business of the Group in the near future is uncertain.

(b) Intention of the Offeror in relation to the Group

As stated in the “Letter from Space Securities” in this Composite Document, it is the Offeror’s intention to further consolidate its interest in the Company pursuant to the Offers. The Offeror has no intention to introduce major changes to the existing business of the Group, including any redeployment of fixed assets other than those in its ordinary course of business. The intention of the Offeror is that the Company’s existing principal activities will be maintained, and at the same time after completion of the Offers, the Offeror will assist the Company in reviewing its business and operations and seek for new investment opportunities. As at the Latest Practicable Date, no new investment opportunities have been identified.

The Offeror will, depending on the business operations and development of the Group in the future, constantly review the employee structure of the Group so as to meet the needs of the Group from time to time. The Offeror has no intention to (i) discontinue the employment of any employees of the Group; or (ii) redeploy the fixed assets of the Company other than those in its ordinary and usual course of business.

(c) Changes to the composition of the Board

As stated in the Board Letter, as at the Latest Practicable Date, the executive Directors are Mr. Sin Kwok Chi Stephen and Mr. Ho Chi Yuen; and the independent non-executive Directors are Mr. Leung Fuk Shun, Mr. Cheung Chun Man Anthony and Mr. Law Chi Hung. Mr. Ho Chi Yuen has indicated his intention to resign from his position as executive Director after the close of the Offers due to his personal and business commitments. The Board is aware of the intentions of the Offeror in respect of the Group and that the Offeror does not intend to make any changes to the existing management and employment of the employees of the Group or redeploy the fixed assets of the Group other than those in its ordinary and usual course of business. Any changes to the Board will be made in compliance with the Takeovers Code and the Listing Rules and a further announcement will be made accordingly.

(d) Maintenance of the listing status of the Company

As stated in the “Letter from Space Securities” 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 listed issuer, being 25% of the issued shares, are held by the public, or if the Stock Exchange believes that:

- a false market exists or may exist in the trading of the shares; or
- that there are insufficient shares in public hands to maintain an orderly market,

it will consider exercising its discretion to suspend dealings in the shares.

The Offeror intends the Company to remain listed on the Stock Exchange. The Offeror has undertaken to the Stock Exchange to take appropriate steps to ensure that sufficient public float exists in the Shares. As at the Latest Practicable Date, the Offeror has no intention, understanding, negotiation or arrangement (concluded or otherwise) for (a) the downsize, cessation or disposal of existing business of the Group; and (b) acquisition of business or assets.

(e) Our view

Having considered that (i) the contribution from the Offeror to the existing business of the Group is uncertain based on the background of the Offeror as stated above; (ii) the Offeror has no intention to introduce major changes to the existing business of the Group, including any redeployment of fixed assets other than those in its ordinary course of business; (iii) the intention of the Offeror is that the Company’s existing principal activities will be maintained, and at the same time after completion of the Offers, the Offeror will assist the Company in reviewing its business and operations and seek for new investment opportunities, as at the Latest Practicable Date, no new investment opportunities have been identified; (iv) the Offeror has no intention to discontinue the employment of any

employees of the Group; (v) the Offeror has no intention to redeploy the fixed assets of the Company other than those in its ordinary and usual course of business; and (vi) as at the Latest Practicable Date, no new investment opportunities have been identified, we expect that there would not be substantial change in the principal business activities of the Group as a direct result of the Offers.

3. Principal terms of the Offers

As stated in the Board Letter, Space Securities will make the Offers for and on behalf of the Offeror in compliance with the Takeovers Code on the following terms:

The Share Offer

For every Offer Share HK\$0.1668 in cash

The Share Offer Price of HK\$0.1668 per Offer Share under the Share Offer equals to the purchase price per Sale Share paid by the Purchaser under the Agreement.

(a) Comparison of value

The Share Offer Price of HK\$0.1668 represents:

- (i) a discount of approximately 18.63% to the closing price of HK\$0.205 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) a discount of approximately 74.73% to the closing price of HK\$0.66 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (iii) a discount of approximately 72.20% to the average of the closing prices of the Shares as quoted on the Stock Exchange for the 5 consecutive trading days up to and including the Last Trading Day of HK\$0.6 per Share;
- (iv) a discount of approximately 70.74% to the average of the closing prices of the Shares as quoted on the Stock Exchange for the 10 consecutive trading days up to and including the Last Trading Day of HK\$0.57 per Share;
- (v) a discount of approximately 67.92% to the average of the closing prices of the Shares as quoted on the Stock Exchange for the 30 consecutive trading days up to and including the Last Trading Day of HK\$0.52 per Share;
- (vi) a discount of approximately 22.42% to the unaudited consolidated net asset value of the Company of approximately HK\$0.215 per Share as at 30 September 2022; and

- (vii) a discount of approximately 24.18% to the audited consolidated net asset value of the Company of approximately HK\$0.22 per Share as at 31 March 2023.

4. Analysis of the Share Offer Price

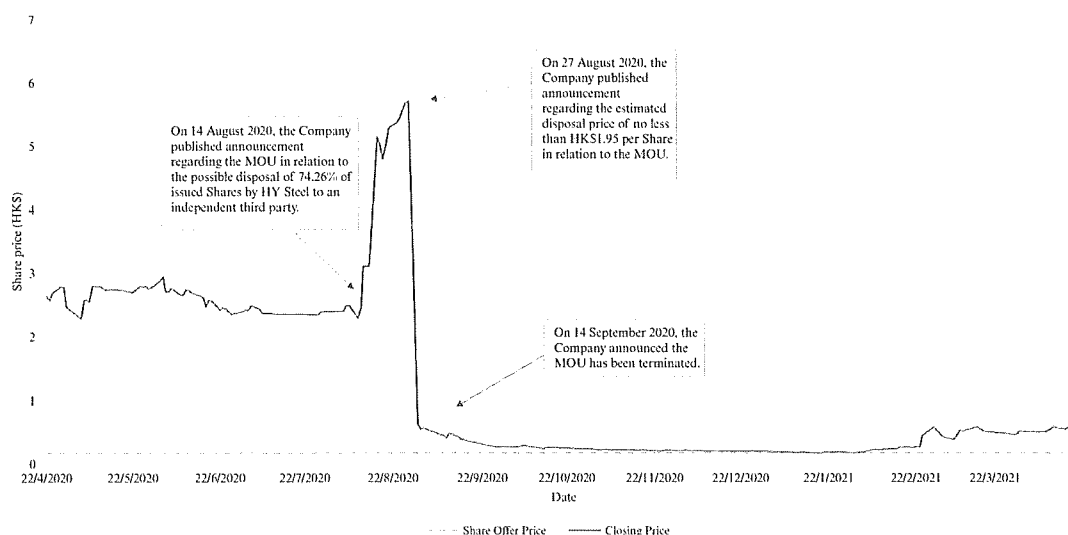
The trading in the Shares has been prolonged suspended from 22 April 2021 to 3 August 2023 (“Suspended Period”). Given that the closing price of the Shares prior to the suspension of trading does not reflect the current financial and trading position of the Company, in addition to the comparison between the Share Offer Price and the historical closing prices of the Shares based on the information from 23 April 2020, being the date one year prior to the Last Trading Day, to the Last Trading Day (the “2021 Review Period”) which is for reference only, we also analysed the Share Offer Price based on the information from 4 August 2023, being the date that the trading in the Shares resumed until the Latest Practicable Date (the “2023 Review Period”).

(a) Analysis of the Share Offer Price during 2021 Review Period

i. Historical price performance of the Shares during the 2021 Review Period

Set out below are our analysis on the Share Offer Price to the Share price during 2021 Review Period:

Graph 1: Historical daily closing price per Share during the 2021 Review Period



As illustrated from the chart above, the movement of the closing prices of the Shares was between a range from HK\$0.158 per Share to HK\$5.72 per Share recorded with an average closing price of the Share of approximately HK\$1.24 per Share during the 2021 Review Period (the “**Average Closing Price**”). The Share Offer Price represents a discount of approximately 86.55% to the Average Closing Price. We are of the view that such deep discount was for reference only as the average closing price of the Shares during the 2021 Review Period does not reflect the current financial and trading position of the Company as the trading in Shares had been prolonged suspended for more than two years and three months during the Suspended Period.

We noted that the daily closing prices of the Shares have been stable from the beginning of the 2021 Review Period until middle of August 2020. Then the closing price of the Share surged from HK\$3.10 on 14 August 2020 to HK\$5.15 on the next trading day, 17 August 2020. We believe that was due to the Company’s announcement dated 14 August 2020 that an independent third party and HY Steel entered into a memorandum of understanding (“**MOU**”) on 14 August 2020 regarding a possible sale of 74.26% of the then issued Shares to the potential purchaser. The closing price of the Share reached its peak during the 2021 Review Period (i.e. HK\$5.72) on 28 August 2020. The closing price of the Share then dropped from HK\$5.72 on 28 August 2020 to HK\$0.61 on the next trading day, 31 August 2020. We believe that was related to the Company’s announcement dated 27 August 2020 that the price of the abovementioned disposal is estimated to be no less than HK\$1.95 per Share, which is much lower than the closing price of the Share on 27 August 2020 (i.e. HK\$5.70). On 14 September 2020, the Company announced the MOU has been terminated and the closing price of the Share had been trading below HK\$0.70 until the end of the 2021 Review Period.

ii. *Historical trading liquidity of the Shares during the 2021 Review Period*

The following table sets out the historical trading liquidity of the Shares during the 2021 Review Period:

Table 3: Historical trading liquidity of the Shares during the 2021 Review Period

Month/ Period	Number of trading days in each month/ period <i>(Shares)</i>	Total trading volume in each month/period <i>(Shares)</i>	Average daily trading volume in each month/ period <i>(Note 1)</i>	Percentage of	Percentage of	Percentage of
				average trading	Shares held by	average trading
				volume to total	public	volume to total
				number of	Shareholders to	number of
				Shares in issue	total number of	Shares in issue
at the month/ period end <i>(Note 2)</i> <i>(%)</i>	at the month/ period end <i>(Note 3)</i> <i>(%)</i>	at the month/ period end <i>(Note 4)</i> <i>(%)</i>				
2020						
April	6	8,025,000	1,337,500	0.17	25.74	0.68
May	20	11,820,000	591,000	0.08	25.74	0.30
June	21	16,600,000	790,476	0.10	25.74	0.40
July	22	1,935,000	87,955	0.01	25.74	0.04
August	21	466,569,621	22,217,601	2.89	25.74	11.24
September	22	339,452,000	15,429,636	2.01	25.74	7.81
October	18	43,298,100	2,405,450	0.31	25.74	1.22
November	21	19,240,000	916,190	0.12	25.74	0.46
December	22	20,548,501	934,023	0.12	25.74	0.47
2021						
January	20	17,820,000	891,000	0.12	25.74	0.45
February	18	166,610,000	9,256,111	1.21	25.74	4.68
March	23	214,585,000	9,329,783	1.22	26.45	4.60
April <i>(Note 5)</i>	11	305,200,000	27,745,455	3.61	33.15	10.90

Source: the Stock Exchange's website (www.hkex.com.hk) and yahoo finance website (<https://finance.yahoo.com/quote/1894.HK/history?p=1894.HK>)

Notes:

1. It is calculated by dividing the total trading volume of the Shares for the month/period by the corresponding number of trading days of that month/period.
2. It is calculated by dividing the average daily trading volume of the Shares by the total number of Shares in issue at each month/period end.
3. We calculated the number of Shares held by public Shareholders by using the number of issued Shares of the Company at the end of each month based on the monthly return of the Company available from the Stock's Exchange website minus the number of Shares held by substantial Shareholders of the Company, which are available from disclosure of interests of the Stock Exchange website.
4. It is calculated by dividing the average daily trading volume of the Shares by the total number of Shares held by public Shareholders at each month/period end.
5. Trading in the Shares had been suspended during the Suspended Period.

As depicted above, during the 2021 Review Period, the range of average daily trading volume of each month or period represents approximately 0.01% to 3.61% of the total number of Shares in issue at the end of the respective month or period. The average daily trading volume of the Shares on the Stock Exchange during the 2021 Review Period was approximately 6,660,013 Shares, representing approximately 0.87% of the Company's existing total issued Shares.

During the 2021 Review Period, we noticed that the percentage of number of Shares held by public Shareholders to the total number of Shares in issue at each of the month end were less than 35% according to the disclosure of interest in the website of the Stock Exchange and the trading volume of Shares were slightly higher in August 2020 and April 2021. For the increased average trading volume to approximately 11.24% to the total number of Shares held by public Shareholders in August 2020, we believe that it was possibly due to the Company's announcement dated 14 August 2020 regarding the abovementioned MOU. According to the Company's announcement on 14 September 2020, the Company announced the MOU has been terminated and we could see the decreasing trend of the trading volume of Shares from August 2020 to October 2020 that the average trading volume of Shares to the total number of Shares held by public Shareholder has decreased from approximately 11.24% in August 2020 to approximately 7.81% in September and further decreased to approximately 1.22% in October 2020 which the relatively high trading volume in August 2020 was not sustainable.

We also noticed that the average trading volume to the total number of Shares held by public Shareholders has increased from approximately 4.60% in March 2021 to approximately 10.90% in April 2021. With reference to the Company's announcement dated 31 March 2021, the Company announced there were certain changes of independent non-executive Directors and company secretary of the Company, the trading volume of the Shares then increased in the April 2021. We have discussed with the Management regarding the relatively high trading volume of the Shares in April 2021 and were advised that they are not aware of any particular reason that led to the unusual trading volume movement apart from the abovementioned announcement. The trading in Shares had then been suspended on 22 April 2021 and the Company has published an announcement regarding an enforcement authority having attended the office premises of the Group in Hong Kong with search warrants relating to an investigation on 22 April 2021.

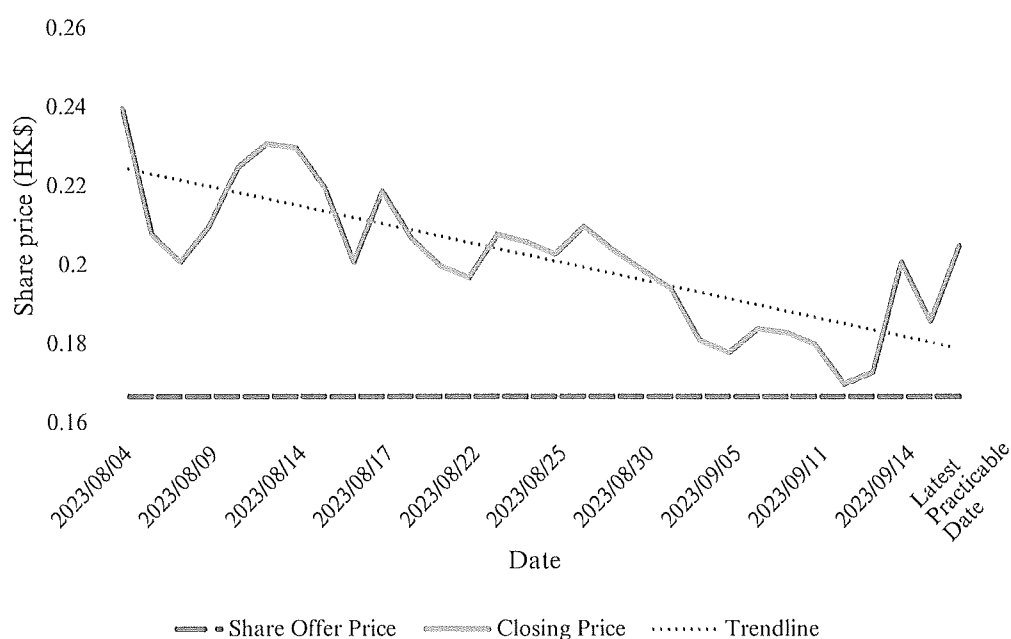
If excluding the trading volume in August 2020 and April 2021, the average daily trading volume of which might be affected by certain abovementioned announcements that the Company announced, during the 2021 Review Period, (i) the range of average daily trading volume of each month or period represents approximately 0.01% to 2.01% of the total number of Shares in issue at the end of the respective month or period; and (ii) the average daily trading volume of the Shares on the Stock Exchange during the 2021 Review Period was approximately 4,037,247 Shares, representing approximately 0.53% of the Company's existing total issued Shares, which means the trading volume of the Shares were thin.

(b) Analysis of the Share Offer Price during 2023 Review Period

As the trading in Shares had been prolonged suspended for more than two years and three months during the Suspended Period, we suggest the Offer Shareholders to make reference to our analysis on the trading price performance and trading liquidity of the Share after resumption of trading on 4 August 2023 below.

i. Price performance of the Shares during the 2023 Review Period

Graph 2: Historical daily closing price per Share during the 2023 Review Period



On 4 August 2023, being the date on which the trading in the Shares resumes, the closing price of the Share has dropped to HK\$0.24, which represents a drop of approximately 63.64% when compared to that as at Last Trading Day. During the 2023 Review Period, the closing prices of the Shares as quoted on the Stock Exchange were moving between HK\$0.17 (the “**2023 Review Period Lowest Price**”) recorded on the 12 September 2023 and HK\$0.24 (the “**2023 Review Period Highest Price**”) recorded on 4 August 2023 respectively. The Share Offer Price represents a discount of approximately 30.50% to the 2023 Review Period Highest Price and a discount of approximately 1.88% to the 2023 Review Period Lowest Price. The average closing price of the Share during the 2023 Review Period was HK\$0.202 (the “**2023 Review Period Average Price**”) and the Share Offer Price represents a discount of approximately 17.43% to the 2023 Review Period Average Price.

ii. Trading liquidity of the Shares during the 2023 Review Period

The following table sets out the historical trading liquidity of the Shares during the 2023 Review Period:

Table 4: Historical trading liquidity of the Shares during the 2023 Review Period

Date	Daily trading volume on the trading day (Shares)	Percentage of trading volume to total number of Shares in issue as at the Latest Practicable Date (Note 1) (%)	Percentage of trading volume to total number of Shares held by public Shareholders as at the Latest Practicable Date (Note 2) (%)
04 August 2023	32,235,000	4.20	12.67
07 August 2023	16,250,000	2.12	6.39
08 August 2023	2,745,000	0.36	1.08
09 August 2023	6,555,000	0.85	2.58
10 August 2023	2,315,000	0.30	0.91
11 August 2023	4,975,000	0.65	1.96
14 August 2023	610,000	0.08	0.24
15 August 2023	535,000	0.07	0.21
16 August 2023	1,305,000	0.17	0.51
17 August 2023	1,365,000	0.18	0.54
18 August 2023	360,000	0.05	0.14
21 August 2023	1,325,000	0.17	0.52
22 August 2023	1,030,000	0.13	0.40
23 August 2023	2,610,000	0.34	1.03
24 August 2023	1,020,480	0.13	0.40
25 August 2023	770,000	0.10	0.30
28 August 2023	1,525,000	0.20	0.60

Date	Daily trading volume on the trading day (Shares)	Percentage of trading volume to total number of Shares in issue as at the Latest Practicable Date (Note 1) (%)	Percentage of
			trading volume to total number of Shares held by public Shareholders as at the Latest Practicable Date (Note 2) (%)
29 August 2023	2,510,000	0.33	0.99
30 August 2023	475,000	0.06	0.19
31 August 2023	695,000	0.09	0.27
4 September 2023	3,470,000	0.45	1.36
5 September 2023	1,255,000	0.16	0.49
6 September 2023	2,580,000	0.34	1.01
7 September 2023	2,495,000	0.33	0.98
11 September 2023	940,000	0.12	0.37
12 September 2023	895,000	0.12	0.35
13 September 2023	1,650,000	0.21	0.65
14 September 2023	5,650,000	0.74	2.22
15 September 2023	240,000	0.03	0.09
Latest Practicable Date, i.e. 18 September 2023	2,725,000	0.36	1.07

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

Notes:

1. It is calculated by dividing the daily trading volume of the Shares by the total number of Shares in issue as at the Latest Practicable Date.
2. It is calculated by dividing the daily trading volume of the Shares by the total number of Shares held by public Shareholders as at the Latest Practicable Date (i.e. 254,445,000 Shares) with reference to the Board Letter.

During the 2023 Review Period, the daily trading volume of the Shares have recorded with the lowest daily trading volume at 240,000 Shares and the highest daily trading volume at 32,235,000, which represents approximately 0.09% and approximately 12.67% respectively to the total number of Shares held by public Shareholders as at the Latest Practicable Date (i.e. 254,445,000 Shares). The average daily trading volume during the 2023 Review Period was approximately 3,437,016 Shares, which represents approximately 1.35% to the total number of shares held by public Shareholders.

Given the average daily trading volume during the 2023 Review Period was approximately 3,437,016 Shares, which represents approximately 1.35% to the total number of Shares held by public Shareholders, it is uncertain as to whether there would be sufficient liquidity in the Shares for the Offer Shareholders to dispose of a significant number of the Shares in the open market, should they wish so, without affecting the price of the Shares and exerting the trading price downwards.

(c) Comparable analysis

In assessing the fairness and reasonableness of the Share Offer, we compared the price-to-earnings ratio (“**PE Ratio**”) and the price-to-book ratio (“**PB Ratio**”) of the Company implied by the Share Offer Price with other listed companies in Hong Kong with business similar to that of the Company. PE Ratio and PB Ratio are the commonly used valuation benchmarks in assessing the valuation of a company since the data for calculating these ratios can be obtained directly from publicly available information and reflect the value of the company determined by the open market. However, given that the Group recorded loss for the year attributable to the owners of the Company for the year ended 31 March 2023, PE Ratio is not applicable and we have relied on the PB Ratio for our comparable analysis.

Given that (i) the revenue of the Group is generated from the provision of steel and metal engineering services and sales of steel and metal products with reference to note 9 to the consolidated financial statements of the Annual Report 2023; and (ii) the market capitalisation of the Company was approximately HK\$143.5 million as at the Latest Practicable Date (based on the total issued shares of 767,600,000 Shares and the average closing price of Share for the five previous consecutive trading days prior to the Latest Practicable Date, HK\$0.187), we attempted to identify companies listed on the Stock Exchange based on the selection criteria that (a) their revenue are fully generated from the sales or production of steel products in their respective latest financial year; (b) market capitalisation of which is below HK\$500 million as at the Latest Practicable Date; and (c) have their shares listed on the Main Board of the Stock Exchange. However, we could only identify one comparable company, which is no.4 of the Comparable Companies (as defined below) in the below table (i.e. KangLi International Holdings Limited).

In this regard, we adjusted the selection criteria to those companies listed on the Main Board which (a) over 50% of their revenue from the sales or production of steel products in their respective latest financial year; and (b) market capitalisation of which is lower than HK\$1 billion as at the Latest Practicable Date, which we could only identify five comparable companies, that are no.1 to no.5 of the Comparable Companies (as defined below) in the below table, with one of the Comparable Company (as defined below), Xiwang Special Steel Company Limited (“**Xiwang**”), has been suspended for trading in its shares as at the Latest Practicable Date (please refer to note 5 of the below table for the

detailed reasons of exclusion). We were of the view that five comparable companies (which included one comparable company that trading in its shares has been suspended as at the Latest Practicable Date) were not sufficient for analysis and we further adjusted the selection criteria to those companies listed on the Main Board which (a) over 50% of their revenue are from the sales or production of steel products in their respective latest financial year; and (b) market capitalisation of which is lower than HK\$3.50 billion as at the Latest Practicable Date. Based on these selection criteria, we identified eight comparable companies (“Comparable Company(ies)”) as shown below. We consider that while the Company and the Comparable Companies are not closely related in terms of, among others, financial performance, financial position and market capitalisation, the principal activities of such companies are in general affected by similar macro-economic factors including but not limited to, economy and outlook. The Comparable Companies represent a complete and an exhaustive list of companies meeting the aforementioned criteria. The following table sets out the details of the Comparable Companies:

Table 5: Information of the Comparable Companies

No.	Company (Stock code)	Principal business	Market capitalisation as at the Latest Practicable Date (HK\$ million) (Note 1)	Average closing price of the share of the respective Comparable Company as quoted on the Stock Exchange for the five previous consecutive trading days prior to the Latest Practicable Date (HK\$) (Note 2)	Net asset value attributable to the shareholders of the respective Comparable Company (HK\$ million) (Note 3)	PB Ratio (times) (Note 4)
1.	Xiwang Special Steel Company Limited (1266)	Manufacture and sales of steel products	Not applicable (Note 5)	Not applicable (Note 5)	4,863	Not applicable (Note 5)
2.	Maike Tube Industry Holdings Limited (1553)	Manufacturing of steel pipe products and prefabricated pipe nipple products	441	1.016	1,057	0.42
3.	Huajin International Holdings Limited (2738)	Providing cold-rolled carbon steel strips, sheets and welded steel tubes customised to the specifications of its customers	594	0.990	508	1.17
4.	KangLi International Holdings Limited (6890)	Midstream galvanised steel products manufacturer	279	0.460	779	0.36
5.	Chongqing Iron & Steel Company Limited (1053)	Manufacture and distribution of iron and steel products	481	0.894	22,791	0.35
6.	Maanshan Iron & Steel Company Limited (323)	Production and sales of iron and steel products	2,360	1.362	29,273	0.36
7.	Angang Steel Company Limited (347)	Production and distribution of steel.	2,840	2.012	61,940	0.31

Company No. (Stock code)	Principal business	Average closing price of the share of the respective Comparable Company as quoted on the Stock Exchange for the five previous consecutive trading days prior to the Latest Practicable Date (HKS)		Net asset value attributable to the shareholders of the respective Comparable Company (HKS million) (Note 3)	PB Ratio (times) (Note 4)
		Market capitalisation as at the Latest Practicable Date (HKS million) (Note 1)	Market capitalisation as at the Latest Practicable Date (HKS) (Note 2)		
8. Da Ming International Holdings Limited (1090)	Processing, distribution and sales of stainless steel and carbon steel products in China	1,746	1,370	3,458	0.50
				Minimum (excluding outlier) (Note 5)	0.31
				Maximum (excluding outlier) (Note 5)	1.17
				Average (excluding outlier) (Note 5)	0.50
				Median (excluding outlier) (Note 5)	0.36
The Share Offer/The Company		144	0.1668 (Note 6)	170.10	0.75 (Note 7)

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

Notes:

1. Based on the average closing price of the share of the respective Comparable Company as quoted on the Stock Exchange for the five previous consecutive trading days prior to the Latest Practicable Date and their respective issued shares as quoted on the latest published monthly return available on the website of the Stock Exchange.
2. The figures are calculated based on the figures available from the website of the Stock Exchange.
3. Based on the figures from respective Comparable Companies' latest published financial reports.
4. The figures are calculated based on the average closing price of the share of the respective Comparable Company as quoted on the Stock Exchange for the five previous consecutive trading days prior to the Latest Practicable Date (please refer to note 1 above) divided by net asset value attributable to the shareholders of the respective Comparable Company per issued share of the respective Comparable Company.

5. With reference to the announcement of Xiwang dated 29 March 2023, the trading in shares of Xiwang has been suspended. With reference to the announcement of Xiwang dated 30 March 2023 regarding to, amongst others, (i) a winding-up order was made on 20 March 2023 against Xiwang Investment Company Limited, which owned approximately 36.64% of total issued share capital of Xiwang as at 30 March 2023; and (ii) a winding up petition was filed against Xiwang on 17 February 2023. When trading in shares in Xiwang resumed on 4 April 2023, the closing price of share of Xiwang dropped from HK\$0.134 per share to HK\$0.051 per share and had recorded the closing price of HK\$0.01 on 31 August 2023. With reference to the announcement of Xiwang dated 4 September 2023, trading in shares of Xiwang has been suspended due to delay in publish of their interim results and has still been suspended as at the Latest Practicable Date. Based on the above circumstances, we have excluded Xiwang as Comparable Company for PB Ratio analysis.
6. Being the Share Offer Price.
7. The figure is computed by dividing the Share Offer Price by the equity attributable to owners of the Company as at 31 March 2023 (i.e. HK\$170.10 million according to the Annual Report 2023) per Share.

The PB Ratios of the Comparable Companies (excluding no.1 of the Comparable Company, Xiwang, please refer to note 5 of the table above for the reasons of exclusion) ranged from approximately 0.31 time to approximately 1.17 times, with an average of 0.50 time and a median of approximately 0.36 time. Accordingly, the PB Ratio of the Company implied by the Share Offer Price of approximately 0.75 time is (i) higher than six out of seven Comparable Companies' PB Ratios; and (ii) higher than the average and median of the PB Ratios presented by the Comparable Companies.

Although the Share Offer Price represents a discount of approximately 17.43% to the 2023 Review Period Average Price (i.e. HK\$0.202) and a discount of approximately 18.63% to the closing price of the Shares (i.e. HK\$0.205) as at Latest Practicable Date, having considered that (i) due to the Incident Transactions, the trading in Shares had been prolonged suspended for more than two years and three months during the Suspended Period; (ii) the uncertain business outlook as stated under the paragraph headed "1. Information on the Group — (c) Business outlook of the Group" above in this letter; (iii) the contribution from the Offeror to the existing business of the Group is uncertain based on the background of the Offeror as stated in the paragraph headed "2. Information on the Offeror and the Offeror's intention regarding the Group — (a) Information on the Offeror" above in this letter; (iv) it is uncertain as to whether there would be sufficient liquidity in the Shares for the Offer Shareholders to dispose of a significant number of the Shares in the open market, should they wish so, without affecting the price of the Shares and exerting the trading price downwards as stated under the paragraph headed "(ii) Trading liquidity of the Shares during the 2023 Review Period" above in this letter; and (v) the PB Ratio of the Company implied by the Share Offer Price is higher than six out of seven Comparable Companies' PB Ratios and higher than the average and median of the PB Ratios presented by the Comparable Companies as stated above, we are of the view that the Share Offer Price is fair and reasonable.

Given the closing price of the Shares has remained to be fluctuated and experienced a downward trend since the publication of the Joint Announcement and up to the Latest Practicable Date, the Offer Shareholders who intend to realise their investment in the Company shall, having regard to their own circumstances, consider selling the Shares in the open market instead of accepting the Share Offer, if the net proceeds from the sale of such Shares in the open market would be higher than that receivable under the Share Offer. The Offer 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 Share Offer.

5. The Option Offer

With reference to the Board Letter, save for the Options, as at the Latest Practicable Date, the Company does not have any outstanding convertible securities, warrants, options or derivatives in respect of any Shares.

Given that the exercise price of the outstanding Options (being HK\$1.53) is significantly higher than the Share Offer Price, the outstanding Options are deeply out of the money. We consider that the Option Offer Price of a nominal value of HK\$0.001 for the cancellation of each Option is fair and reasonable so far as the Optionholders are concerned.

RECOMMENDATION

The Share Offer

Although the Share Offer Price represents a discount of approximately 18.63% to the closing price of HK\$0.205 per Share as at the Latest Practicable Date, having taken into account the principal factors and reasons as discussed above, and in summary as follows (which should be read in conjunction with and interpreted in the full context of this letter):

- (i) there is uncertainty in the accuracy of the financial information of the Company for FY2021, FY2022 and FY2023 given the disclaimer of opinions issued by the Auditor as stated in the paragraph headed “1. Information on the Group — (b) Financial information of the Group” above in this letter;
- (ii) the revenue (i.e. from approximately HK\$203.60 million for FY2022 to approximately HK\$184.90 million for FY2023), gross profit margin (i.e. from approximately 21.27% for FY2022 to approximately 12.09% for FY2023) and profits for the year attributable to the owners of the Company arose from continuing operations of the Group (i.e. from approximately HK\$17.80 million for FY2022 to approximately HK\$1.76 million for FY2023) decreased from FY2022 to FY2023 as stated under the paragraph headed “1. Information on the Group — (b) Financial information of the Group” above in this letter, we remain cautious of the financial performance of the Group;

- (iii) the uncertainty in the prospects and outlook of the Group as stated in the paragraph headed “1. Information on the Group — (c) Business outlook of the Group” above in this letter;
- (iv) there would not be substantial change in the principal business activities of the Group as a direct result of the Offers and the contribution from the Offeror to the existing business of the Group is uncertain based on the background of the Offeror as stated in paragraph headed “2. Information on the Offeror and the Offeror’s intention regarding the Group” above in this letter;
- (v) the P/B ratio of the Company implied by the Share Offer Price of approximately 0.75 time is higher than six out of seven Comparable Companies’ PB Ratios and the average and median of the Comparable Companies’ P/B ratios as stated under the paragraph headed “4. Analysis of the Share Offer Price” above in this letter; and
- (vi) given the low trading liquidity of the Shares during the 2023 Review Period and it is uncertain as to whether there would be sufficient liquidity in the Shares for the Offer Shareholders to dispose of a significant number of the Shares in the open market, should they wish so, without affecting the price of the Shares and exerting the trading price downwards as stated under the paragraph headed “4. Analysis of the Share Offer Price” above in this letter, the Share Offer provides an alternative exit to the Offer Shareholders of the Company;

we are of the view that the terms of the Share Offer are fair and reasonable so far as the Offer Shareholders are concerned. Accordingly, we recommend the Independent Board Committee to advise the Offer Shareholders to accept the Share Offer.

Nevertheless, the Offer Shareholders who intend to accept the Share Offer are reminded to closely monitor the market price and liquidity of the Shares during the Offer Period, especially because disposal of large blocks of Shares in the open market may trigger price slump of the Shares as a result of the relatively inactive trading in the Shares. The Offer Shareholders who intend to realise their investment in the Company shall, having regard to their own circumstances, consider selling the Shares in the open market instead of accepting the Share Offer, if the net proceeds from the sale of such Shares in the open market would be higher than that receivable under the Share Offer.

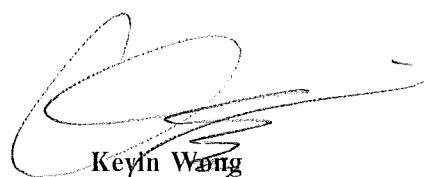
The Option Offer

Given that the exercise price of the outstanding Options (being HK\$1.53) are significantly higher than the Share Offer Price, the outstanding Options are deeply out of the money. We consider that the offer price of a nominal value of HK\$0.001 for the cancellation of each Option is fair and reasonable so far as the Optionholders are concerned. Accordingly, we recommend the Independent Board Committee to advise the Optionholders to accept the Option Offer.

Yours faithfully,
For and on behalf of
Nuada Limited



Kim Chan
Director



Kevin Wong
Vice President

Mr. Kim Chan is a person licensed to carry out type 6 (advising on corporate finance) regulated activity under the SFO and is a responsible officer of Nuada Limited who has over 18 years of experience in corporate finance industry.

Mr. Kevin Wong is a person licensed to carry out type 6 (advising on corporate finance) regulated activity under the SFO and is a responsible officer of Nuada Limited who has over 16 years of experience in corporate finance industry.

** The English names of PRC nationals, entities, facilities and localities are unofficial translation or transliteration from their Chinese names and are for identification purposes only.*