

27 August 2024

*To: The Independent Board Committee,
the Independent Shareholders, and
the Optionholders of
Hang Pin Living Technology Company Limited*

Dear Sirs or Madams,

**VOLUNTARY CONDITIONAL GENERAL CASH OFFERS BY
KINGSTON SECURITIES LIMITED
ON BEHALF OF
BRILLIANT SUNSHINE INTERNATIONAL LIMITED
TO ACQUIRE ALL OF THE ISSUED SHARES OF
HANG PIN LIVING TECHNOLOGY COMPANY LIMITED
(OTHER THAN THOSE ALREADY OWNED BY OR
TO BE ACQUIRED BY THE OFFEROR AND
PARTIES ACTING IN CONCERT WITH IT)
AND
FOR THE CANCELLATION OF ALL THE OUTSTANDING
SHARE OPTIONS OF THE COMPANY**

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee, the Independent Shareholders and the Optionholders in respect of the Offers, details of which are set out in the composite document dated 27 August 2024 (the “**Composite Document**”) jointly issued by the Offeror and the Company, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Composite Document unless the context requires otherwise.

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Reference is made to the Joint Announcement jointly issued by the Offeror and the Company dated 6 August 2024. On 6 August 2024, the Board was informed by the Offeror that, following the purchase of Mr. Ng's Shares (i.e., the 103,950,000 Shares held by Mr. Ng immediately prior to the purchase) from Mr. Ng, who holds 50% shareholding interest in the Offeror and is the director of the Offeror, at HK\$0.08 per Share, the Offeror would like to make voluntary conditional general cash offers in compliance with the Takeovers Code to (1) acquire all of the Offer Shares (other than those already owned by or agreed to be acquired by the Offeror and parties acting in concert with it); and (2) cancel all the outstanding Share Options.

As at the Latest Practicable Date, the Offeror and the parties acting in concert with it hold 103,950,000 Shares (i.e., Mr. Ng's Shares) (representing approximately 13.23% of the entire issued share capital of the Company).

INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising all non-executive Directors, namely Dr. Lam Lee G, Mr. Chan Kin and Mr. Chau Chi Yan Benny, has been established in accordance with Rule 2.1 of the Takeovers Code to advise the Independent Shareholders and the Optionholders as to whether the Offers are fair and reasonable and as to acceptance of the Offers.

OUR INDEPENDENCE

We, INCU Corporate Finance Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders and the Optionholders as to whether the Offers are fair and reasonable and as to the acceptance of the Offers. Our appointment as the Independent Financial Adviser has been approved by the Independent Board Committee in accordance with Rule 2.1 of the Takeovers Code.

During the past two years, we did not act as an independent financial adviser and has not provided any other services to the Company, the Offeror, Mr. Ng, Mr. Yu and any party acting, or presumed to be acting, in concert with any of the above, or any company controlled by any of them. We are independent from, and are not associated with the Company, the Offeror, Mr. Ng, Mr. Yu and any party acting, or presumed to be acting, in concert with any of the above, or any company controlled by any of them. Apart from normal professional fees payable to us in connection with this appointment as the Independent Financial Adviser, no arrangement exists whereby we will receive any fees or benefits from the abovementioned parties or any party acting, or presumed to be acting, in concert with any of them, any of their respective associates, close associates or core connected persons or other parties that could be regarded as relevant to our independence. Accordingly, we are considered eligible to give independent advice in respect of the Offers to the Independent Board Committee and the Independent Shareholders and the Optionholders in accordance with Rule 2.1 of the Takeovers Code.

BASIS OF OUR OPINION

In formulating our opinion and recommendations, we have relied on the statements, information, opinions and representations relating to the operations, financial condition and prospects of the Group contained or referred to in the Composite Document and/or provided to us by the Directors and the Offeror (where applicable). We have reviewed the information of the Company, including but not limited to, the announcements of the Company, the annual report for the year ended 31 March 2024 (the “**Annual Report 2023/24**”), the information contained in the Composite Document and certain published information from the public domain. We have assumed that all statements, information and representations provided by the Directors and the Offeror (where applicable) are true and accurate at the time when they were provided and continue to be so as at the Latest Practicable Date and the Shareholders will be notified of any material changes to such statements, information, representations and/or our opinion contained in this letter 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 and the Offeror (where applicable) in the Composite Document were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Composite Document, or the reasonableness of the opinions expressed by the Directors and the Offeror (where applicable), which have been provided to us.

Your attention is drawn to the responsibility statements as set out in the paragraph headed “1. Responsibility Statement” under the section headed “Appendix IV General Information” in the Composite Document. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Composite Document, save and except for this letter of advice.

We have not 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 or the Shareholders as a result of the Offers.

Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. 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. Shareholders will be notified of any material changes to such statements, information, opinions and/or representation as soon as possible in accordance with Rule 9.1 of the Takeovers Code if there arises any material changes of information previously provided to us by the Company or of our opinion in which event this letter shall be amended and updated.

PRINCIPAL TERMS OF THE OFFERS

According to the Composite Document, as at the Latest Practicable Date, the Company has 785,927,000 Shares in issue and 20,768,000 outstanding Share Options. Save for the above, there are no other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company in issue as at the Latest Practicable Date.

1. The Share Offer

Kingston Securities, for and on behalf of the Offeror and in compliance with the Takeovers Code, is making the Share Offer on the following basis:

For each Offer Share HK\$0.08 in cash

The Share Offer Price is HK\$0.08 per Offer Share, which is the same as the purchase price per Share for the purchase of Mr. Ng's Shares by the Offeror on 6 August 2024. The purchase price was determined after arm's length negotiation between the Offeror and Mr. Ng, taking into account:

- (i) the thin average trading volume of the Shares during the twelve-month period preceding the commencement of the Offer Period, up to and including the Last Trading Day. The average trading volume ranged between nil to approximately 0.0381% to the then total number of issued Shares as at the end of their respective month; and
- (ii) the average of the closing prices of the Shares as quoted on the Stock Exchange over the 60, 90 and 180 trading days up to and including the Last Trading Day.

The Directors confirm that, as at the Latest Practicable Date, the Company has no outstanding dividend or other distribution that has been declared, made but not yet paid. In addition, the Company does not intend to declare, pay and/or make any dividend or other distribution on the Shares until after the close of the Offers.

2. The Option Offer

Kingston Securities, for and on behalf of the Offeror and in compliance with the Takeovers Code, is making the Option Offer on the following basis:

**For cancellation of each Share Option with
exercise price of HK\$0.854 HK\$0.01 in cash**

In accordance with the terms of the Share Option Scheme, Optionholders are entitled to exercise their Share Options in full (to the extent not already exercised) at any time after the date on which the Option Offer is declared unconditional and up to the close of the Option Offer (or any revised offer), after which the Options will lapse automatically (to the extent not exercised).

Pursuant to Rule 13 of the Takeovers Code, the Offeror is making an appropriate cash offer to the Optionholders to cancel their Share Options. The consideration for the cancellation of each Share Option would normally be the see-through price which represents the excess of the Share Offer Price per Offer Share and the exercise price of each Share Option. As the exercise price of the Share Options is above the Share Offer Price, the “see-through” price is zero and the Option Offer Price will be a nominal value of HK\$0.01 per Share Option.

Save for the Share Options, as at the Latest Practicable Date, the Company does not have any outstanding options, derivatives, warrants or relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) 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.

Under the terms of the Option Offer, the Share Options of the accepting Optionholders (together with all rights attaching thereto) will be cancelled.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation to the Independent Board Committee, the Independent Shareholders and the Optionholders in respect of the Offers, we have taken into account the following principal factors and reasons:

1. Background and financial information of the Group

General information of the Group

The Company is a company incorporated in Bermuda with limited liability and the Shares of which are listed on the Main Board of the Stock Exchange (stock code: 1682). The Company is an investment holding company. The Group is principally engaged in (i) garment sourcing (the “**Garment Business**”); and (ii) provision of financial services (the “**Financial Services Business**”).

The Garment Business began in 1998, which provided a comprehensive range of services covering the entire supply chain of garment products. As disclosed in the Annual Report 2023/24 and the announcement of the Company dated 30 March 2021, subsequent to the termination of tenancy agreement in respect of the premises located in Putian, Fujian for manufacturing and sales of garment products and the disposal of assets, including the garment manufacturing machineries and equipment and office equipment, in the PRC in 2021 after the outbreak of COVID-19 pandemic, the Group returns back to light assets business model, which has reduced inventory pressure and operating costs of the Group.

The Group commenced the Financial Services Business in 2018, which provides financial services including asset management, finance lease, pawn and money lending business. Under the money lending business, Golden Maximum Finance Limited (“**Golden Maximum**”), an indirectly wholly-owned subsidiary of the Group and a money lender license holder under the Money Lenders Ordinance (Cap. 163 of the laws of Hong Kong), offers both secured and unsecured loans to borrowers, which primarily include individuals and corporations in Hong Kong or in the PRC. The borrowers of Golden Maximum under the money lending business are mainly introduced to the Group by referral by the close business partners or customers of the Group and are with sound credit records. The money lending business generates revenue and profit by way of interest income. The money lending business is financed by the internal resources of the Group.

Financial information of the Group

Set out below is a summary of the financial performance of the Group for the financial years ended 31 March 2023 (“**FY2022/23**”) and 31 March 2024 (“**FY2023/24**”) respectively as extracted from the Annual Report 2023/24:

	FY2022/23 <i>(HK\$'000)</i> audited	FY2023/24 <i>(HK\$'000)</i> audited
Garment Business	118,710	95,311
Financial Services Business	<u>4,500</u>	<u>1,380</u>
Total revenue	123,210	96,691
Loss before taxation	(5,509)	(6,655)
Loss for the year attributable to owners of the Company	(5,509)	(3,655)

As shown in the above table, the Group’s total revenue for FY2023/24 was approximately HK\$96.69 million, representing a decrease of approximately HK\$26.52 million or 21.5%, compared to the revenue of approximately HK\$123.21 million for FY2022/23. The decrease in revenue was mainly due to (i) the decrease in revenue of Garment Business of approximately HK\$23.40 million as a result of the slow global economic recovery and the decline in textile and apparel exports from China to the markets in Europe and United States; and (ii) the decrease in revenue of Financial Services Business of approximately HK\$3.12 million due to the decrease in interest income of the short-term loans provided by the Group as a result of all of the short-term loans having been repaid by the borrowers in FY2023/24 under the money lending business. By the end of FY2023/24, there is no short-term loan provided by the Group.

As result of the decrease in revenue of the Group, the loss before taxation of the Group increased by approximately HK\$1.15 million or 20.9% from approximately HK\$5.51 million for FY2022/23 to approximately HK\$6.66 million for FY2023/24. The Group recorded loss before taxation for both FY2022/23 and FY2023/24 as the gross profit of approximately HK\$5.52 million and HK\$2.31 million for FY2022/23 and FY2023/24 were insufficient to cover the administrative expenses of approximately HK\$13.37 million and HK\$13.68 million for FY2022/23 and FY2023/24 respectively.

Due to the over-provision of income tax for the year ended 31 March 2021, an income tax credit of approximately HK\$3.00 million was recorded in FY2023/24. Therefore, the Group recorded loss for the year attributable to owners of the Company of approximately HK\$5.51 million and HK\$3.66 million for FY2022/23 and FY2023/24 respectively.

Set out below is a summary of the financial position of the Group as at 31 March 2023 and 31 March 2024 respectively as extracted from the Annual Report 2023/24:

	As at 31 March 2023	As at 31 March 2024
	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>
	audited	audited
Non-current assets		
Plant and equipment	608	1,062
Right-of-use assets	154	–
	<u>762</u>	<u>1,062</u>
Current assets		
Trade and other receivables	42,784	13,979
Amount due from a former subsidiary	2,832	1,130
Loan receivables	44,181	–
Financial assets at fair value through profit or loss	17,732	29,340
Cash and cash equivalents	32,110	60,238
	<u>139,639</u>	<u>104,687</u>
Total assets	140,401	105,749
Current liabilities		
Trade and other payable	44,851	16,458
Tax payables	4,200	1,200
	<u>49,051</u>	<u>17,658</u>
Total liabilities	49,051	17,658
Net current assets	90,588	87,029
Net assets	91,350	88,091

As shown in the above table, the non-current assets of the Group, which consist of plant and equipment and right-of-use assets, were approximately HK\$0.76 million and HK\$1.06 million as at 31 March 2023 and 31 March 2024 respectively. The increase in non-current assets was mainly due to the purchase of vehicles during FY2023/24.

The current assets of the Group were approximately HK\$139.64 million and HK\$104.69 million as at 31 March 2023 and 31 March 2024 respectively. The decrease in current assets of the Group of approximately HK\$34.95 million was mainly due to combined effect of (i) the decrease in loan receivables from approximately HK\$44.18 million as at 31 March 2023 to nil as at 31 March 2024 as a result of repayment of the short-term loans provided by the Group under the money lending business; (ii) the decrease in trade and other receivables of approximately HK\$28.80 million, which was in line with the decrease in revenue as discussed above; and (iii) the increase in cash and cash equivalents of the Group of approximately HK\$28.13 million mainly due to the settlement of the short-term loans by the borrowers as discussed above. According to the Annual Report 2023/24, the financial assets at fair value through profit or loss as at 31 March 2024 represent the investment in shares of companies listed on the Stock Exchange.

The current liabilities of the Group were approximately HK\$49.05 million and HK\$17.66 million as at 31 March 2023 and 31 March 2024 respectively. The decrease in current liabilities of the Group of approximately HK\$31.39 million was mainly due to the decrease in trade and other payables of approximately HK\$28.39 million, which was in line with the decrease in revenue as discussed above.

As at 31 March 2023 and 31 March 2024, the Group had no non-current liabilities.

Dividend payment

We note that the Company has been making loss and has not declared and distributed any dividend in the last five financial years. There is no guarantee that the Company will declare and distribute dividends to the Shareholders in future.

2. Prospect and outlook of the Group

During FY2023/24, the revenue of Financial Services Business was fully relied on the interest income from short-term loans under the money lending business. As discussed in the section headed “1. Background and financial information of the Group” above in this letter, all of the short-term loans provided by the Group under the money lending business of Financial Services Business has been repaid during FY2023/24. As at the Latest Practicable Date, there is no new loan provided by the Group. As discussed with the management of the Company, the Company intends to continue the Financial Service Business. Due to the uncertainty of the market condition, the Group will adopt a more conservative approach in identifying new borrowers under its credit risk assessment and internal control procedure.

For the Garment Business, according to the Annual Report 2023/24, all revenue from Garment Business for FY2022/23 and FY2023/24 was generated from customers in the PRC. The Group encountered severe challenge in the garment industry. As affected by the ongoing Russia-Ukraine war and the Sino-US trade disputes, the trading atmosphere had remained tense and the increasing trade barriers has damaged the market confidence. As a result, the operating performance of retailers was adversely affected, especially for those engaged in the trading of non-daily necessities, such as apparel products. Although various anti-epidemic measures had been withdrawn in China at the beginning of 2023, due to the combined effects of economic slowdown and sluggish real estate market in China, the overall pace of recovery in China was slower than expected, and the market conditions were still weak while recovery was still slow in terms of consumers’ purchasing power in the textile and apparel market. Consumers remained cautious on spending and preferred low-priced, functional and cost-effective consumption.

We observe that there is severe competition in the garment and clothing industry in the PRC with the decreasing export amount and intense price competition in the market after reviewing the national and export data from the National Bureau of Statistics of the PRC and the General Administration of Customs of the PRC. According to the national data as announced by the National Bureau of Statistics of the PRC (<https://data.stats.gov.cn/easyquery.htm?cn=C01>), the expenditure on apparel per capita in the PRC has been increased from RMB1,338 for the year 2019 to RMB1,479 for the year of 2023, representing a compounded annual growth rate of approximately 2.5%. Although there was sustainable growth in expenditure on apparel per capita in the PRC, based on the latest available statistics of retail price of products in the PRC, the retail price of apparel products in the PRC showed a lower year-over-year growth ranged from negative 0.2% to positive 0.6% between the year of 2020 and 2022 as compared with the year-over-year growth ranged from positive 1.2% to 2.9% between the year of 2014 and 2019 before the outbreak of the COVID-19 pandemic. Furthermore, according to the export data as announced by the General Administration of Customs of the PRC (<http://www.customs.gov.cn/customs/302249/zfxgk/2799825/302274/302277/5668662/index.html>), the export of apparel and clothing accessories in the PRC for the year of 2023 was approximately US\$159.14 billion, which represented a decrease of approximately 7.8% as compared with year of 2022, and the export of apparel and clothing accessories in the PRC for the first six months of 2024 was approximately US\$73.83 billion, which represented almost no growth as compared with the first six months of 2023. Since the latest export amount of apparel and clothing accessories and the recent growth rate of retail price of apparel products have been reduced, the result of the above statistics reflects that the consumers are more price sensitive and the competition of the garment industry is intensified in the PRC local market after the COVID-19 pandemic.

After considering that (i) the Group has been making loss for FY2022/23 and FY2023/24 as discussed in the section headed “1. Background and financial information of the Group” above in this letter; and (ii) the Garment Business would encounter severe competition due to the slow recovery of garment and clothing industry in the PRC after the COVID-19 pandemic, we consider that the Group’s outlook and prospects remain uncertain.

3. Information of the Offeror

The Offeror

The Offeror is an investment holding company incorporated in British Virgin Islands with limited liability, which is owned as to 50% by Mr. Ng and as to 50% by Mr. Yu. As at the Latest Practicable Date, the assets held by the Offeror are Mr. Ng’s Shares and cash.

Mr. Ng

Mr. Ng is an entrepreneur specialising in garment processing and manufacturing. He commences his garment processing and manufacturing business in the 1980s. He is the founder and chairman of Good Fellow Group Limited, a company being primarily involved in the garment industry, as well as real estate, high technology, agriculture and forestry, and finance. Furthermore, he had been a substantial shareholder of the Company since December 2017 and immediately prior to the sales of his Shares to the Offeror. Mr. Ng has extensive experience related to the business of the Group (i.e., garment business) but has not held any positions in the Group.

Mr. Ng was an executive director and a chairman of the board of Good Resources Holdings Limited (delisted on 4 May 2022, previous stock code: 109) and a member of each of the remuneration committee, nomination committee and general committee of the company from 14 June 2007 to 10 November 2008. He was appointed as non-executive director and chairman of the company on 8 September 2009 and re-designated to executive director and member of each of the remuneration committee, nomination committee and general committee of the company on 30 September 2009. He was also the director of certain subsidiaries of the company. He re-designated to non-executive director on 29 June 2015 and resigned on 1 April 2016. In addition, Mr. Ng was an executive director and a chairman of the board of China Sandi Holdings Limited (previous known as: China Grand Forestry Green Resources Group Limited) (stock code: 910) from 1 December 1998 to 30 September 2009.

Mr. Ng currently holds several important positions, including being a Honorary Chairman of Hong Kong Federation of Fujian Associations, Vice Chairman of Friends of Hong Kong Association Limited, Honorary Chairman of Kukien Chamber of Commerce and Honorary Chairman of the Hong Kong Puxian Native Association. He was the member of the 10th and 12th National Committee of Chinese People's Political Consultative Conference ("CPPCC"), standing committee member of the 12th Subcommittee of Education, Science, Culture, Health and Sports of the National Committee of the CPPCC and the standing committee member of the 13th and 14th National Committee of the CPPCC.

Mr. Ng is a Justice of the Peace of the Hong Kong Special Administrative Region. He has been honoured with the Grand Bauhinia Medal (大紫荊星章) in 2022, the Gold Bauhinia Star Medal in 2017 and the Silver Bauhinia Star in 2011 by the Hong Kong Special Administrative Region.

Mr. Yu

Mr. Yu is an entrepreneur and a senior engineer in China and has about 20 years of experience in construction, real estate development, coal mining and investment industries. He served as the manager of Shanxi branch of Fujian Gaohua Construction Engineering Co., Ltd.* (福建省高華建設工程有限公司山西分公司) from 1995 to 2008, the chairman of Jiexiu City Wangyuan Coal Industry Co. Ltd.* (介休市旺源煤業有限公司) from 2008 to 2012, and has been the chairman of Shanxi Xierun Investment Co. Ltd.* (山西協潤投資有限公司) and Xiaoyi City Tiankai Real Estate Development Co. Ltd.* (孝義市天凱房地產開發有限公司) since 2008. In addition, Mr. Yu was an executive director of Momentum Financial Holdings Limited (formerly known as: Fornton Group Limited) (stock code: 1152) from 4 June 2014 to 22 January 2018. Mr. Yu obtained a bachelor degree from Huaqiao University in China, majoring in Civil Engineering, in July 1997. Mr. Yu has no experience in the business of the Group.

4. The intention of the Offeror in relation to the Group and proposed change of composition of the Board

The intention of the Offeror in relation to the Group

As stated in the Composite Document, the Company's share price has been on a downward trend since late December 2018. The stock price closed at HK\$1.130 per Share on 31 December 2018, and dropped to a closing price of HK\$0.100 per Share on the Last Trading Day. According to the annual reports of the Company, the Company recorded a profit of approximately HK\$8.0 million in 2018, which decreased to approximately HK\$1.1 million in 2019. Since 2020, the Company has been in a loss-making position. However, the Offeror is optimistic about the Company's future prospects and asserts its confidence and commitment through the Offers.

As a substantial shareholder (as defined under the Listing Rules) since 2017 and with extensive experience in garment processing and manufacturing, Mr. Ng aims to enhance the Group's financial performance. Along with the business acquaintance Mr. Yu, they plan to further invest in the Company's business by acquiring a majority interest pursuant to the Offers. If the Offers become unconditional, the Offeror will become the controlling shareholder of the Company. The Offeror intends to maintain the Group's existing principal activities, and at the same time after completion of the Offers, the Offeror will conduct a review on the existing principal businesses and the financial position of the Group for the purpose of formulating business plans and strategies for the future business development of the Group. In this regard, the Offeror may look into business opportunities and consider whether any fund raising, business restructuring and/or diversification will be appropriate with a view enhancing the long-term growth of the Group. Should such corporate actions materialise, further announcement(s) will be made in accordance with the Listing Rules.

Leveraging Mr. Ng's experience in garment processing and manufacturing, along with the formulation of business plans and strategies following a review of the Group's current business and position, the Offeror aims to create enhanced long-term value for the Shareholders. The Offeror have not identified any investment or business opportunities for the Company nor have the Offeror entered into any related agreement, arrangements, understandings or negotiation and there is no plan on any injection or disposal of any assets or businesses into/of the Group as at the Latest Practicable Date.

The Offeror has no intention to introduce major changes to the business of the Group, including any redeployment of fixed assets other than those in its ordinary course of business. Save for the potential change(s) to the composition of the board of the Company, the Offeror has no existing plan or contemplation to terminate the employment of any other employees or other personnel of the Group. However, after the close of the Offers, the Offeror will continuously review the operation of the Group and the Offeror reserves the right to make any changes that the Offeror deems necessary or appropriate to the Group's businesses and operations to optimise the value of the Group and in the interest of the overall Shareholders. As at the Latest Practicable Date, the Offeror has no plan and/or intention to downsize or change the scale of the Group's existing principal business.

Proposed change of composition of the Board

As at the Latest Practicable Date, the Board comprised Mr. Lam Kai Yeung and Mr. Zhang Kaiyuan as executive Directors, Dr. Lam Lee G, Mr. Chan Kin and Mr. Chau Chi Yan Benny as independent non-executive Directors.

As stated in the Composite Document, the Offeror may consider convening a general meeting to appoint new member(s) to the Board if such appointment is considered to be beneficial to the future development of the Group as permitted under the Takeovers Code. Any change to the composition of the board of the Company will be made in compliance with the Takeovers Code and the Listing Rules.

According to the Composite Document and the information under the section headed "3. Information of the Offeror" above in this letter, we note that Mr. Ng has extensive experience in garment industry and has been a substantial shareholder of the Company since December 2017 before the sale of his Shares to the Offeror but Mr. Yu has no experience in the business of the Group. Although Mr. Ng is experienced in garment processing and manufacturing, after considering that (i) the Offeror has yet to provide any business plans and strategies for the future business development of the Group in the Composite Document; (ii) the Offeror will only conduct a review on the existing principal businesses and the financial position of the Group after completion of the Offers to formulate its business plan; and (iii) the Offeror has not determined the change of board composition of the Company as at the Latest Practicable Date, we consider that the potential reform of the Company by the Offeror and to broaden the scope of their investment were unknown and thus the prospects of the Company are uncertain.

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

The Offeror does not intend to exercise or apply any right which may be available to it to acquire compulsorily any Shares outstanding after the close of the Offers.

The Offeror intends to maintain the listing status of the Company after the close of Offers.

According to the Listing Rules, if, at the close of the Offers, less than 25% of the issued Shares (excluding treasury shares) are held by the public or if the Stock Exchange believes that (i) a false market exists or may exist in the trading of the Shares; or (ii) there are insufficient Shares in public hands to maintain an orderly market, then the Stock Exchange will consider exercising its discretion to suspend dealings in the Shares.

As stated in the Composite Document, the directors of the Offeror and the new directors to be appointed 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.

6. Principal terms of the Share Offer

According to the Composite Document, the Share Offer Price of HK\$0.08 per Offer Share represents:

- (i) a discount of approximately 13.98% to the closing price of HK\$0.0930 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) a discount of approximately 20.00% to the closing price of the Shares of HK\$0.1000 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (iii) a discount of approximately 22.25% to the average of the closing price of the Shares of approximately HK\$0.1029 per Share as quoted on the Stock Exchange for the 30 consecutive trading days up to and including the Last Trading Day;
- (iv) a discount of approximately 9.71% to the average of the closing price of the Shares of approximately HK\$0.0886 per Share as quoted on the Stock Exchange for the 60 consecutive trading days up to and including the Last Trading Day;
- (v) a premium of approximately 0.63% over the average of the closing price of the Shares of approximately HK\$0.0795 per Share as quoted on the Stock Exchange over the 90 consecutive trading days up to and including the Last Trading Day;
- (vi) a premium of approximately 10.50% over the average of the closing price of the Shares of approximately HK\$0.0724 per Share as quoted on the Stock Exchange over the 180 consecutive trading days up to and including the Last Trading Day; and

- (vii) a discount of approximately 28.64% to the audited consolidated net asset value attributable to Shareholders of approximately HK\$0.1121 per Share as at 31 March 2024 (the “NAV per Share”) (calculated based on the audited consolidated net asset value of the Company of approximately HK\$88,091,000 as at 31 March 2024 as extracted from the annual report of the Company for the year ended 31 March 2024 and 785,927,000 Shares (being the number of Shares then in issue)).

Historical Share price performance

In order to assess the fairness and reasonableness of the Share Offer Price, we have reviewed the chart and table that illustrate the historical daily closing price as quoted on the Stock Exchange during (i) the period commencing from 7 August 2023 up to and including the Last Trading Day (the “Pre-Announcement Period”), being approximately one year prior to the Last Trading Day; and (ii) the period commencing from 6 August 2024 (i.e. the trading day right after the Last Trading Day) to the Latest Practicable Date (the “Post-Announcement Period”) (collectively, the “Review Period”). We consider that the Review Period is adequate as it represents a reasonable period to reflect a general overview of the historical price movement of the Shares that covers a full year prior to the Last Trading Day, which includes the release of the interim results for the six months ended 30 September 2023 (“HY2023/24”) and the annual results for FY2023/24, and avoids any short-term fluctuation of the Share price, which may distort our analysis. The following chart sets out the daily closing price of the Shares on the Stock Exchange during the Review Period:

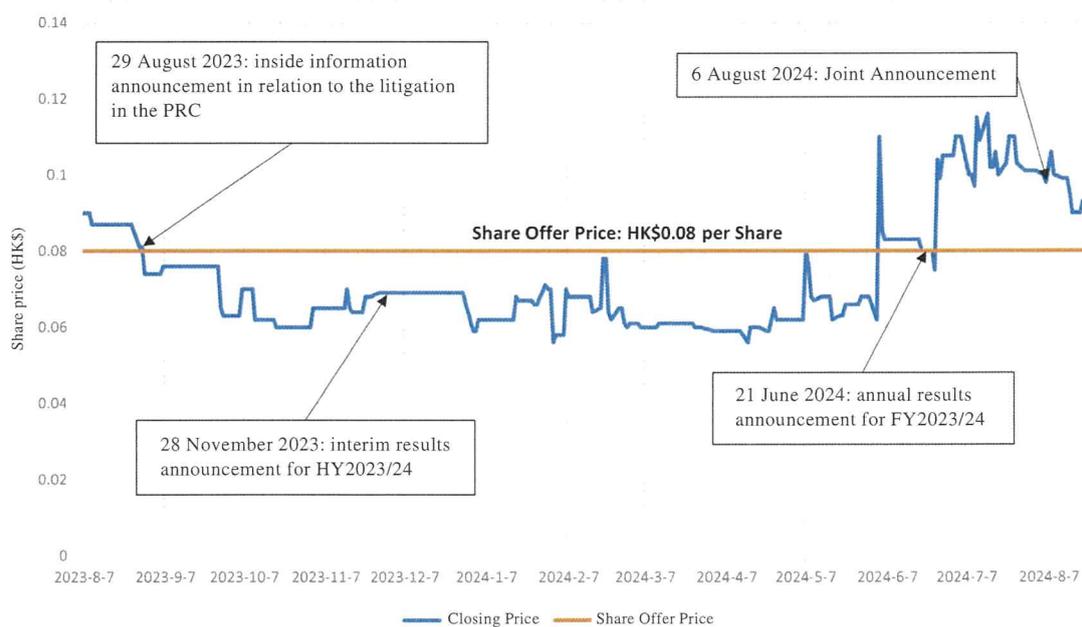


Chart 1: Historical Share price performance of the Company during the Review Period
Source: Website of the Stock Exchange (www.hkex.com.hk)

As shown in the above chart 1, during the Pre-Announcement Period, the daily closing price of the Shares ranged from the lowest of HK\$0.056 per Share to the highest of HK\$0.116 per Share, with an average closing price of HK\$0.073 per Share. The Share Offer Price of HK\$0.08 per Offer Share is within the range of and above the average of the closing price of Shares during the Pre-Announcement Period. We note that the closing price of the Shares was generally above the Share Offer Price of HK\$0.08 per Offer Share after the annual results announcement for FY2023/24 dated 21 June 2024. As advised by the Directors, they are not aware of any specific reasons for the aforesaid closing price fluctuation of the Shares during the Pre-Announcement Period.

During the Post-Announcement Period, the daily closing price of the Shares ranged from the lowest of HK\$0.090 per Share to the highest of HK\$0.106 per Share, with an average closing price of HK\$0.096 per Share. The Share Offer Price of HK\$0.08 per Offer Share is out of the range of the closing price of the Shares during the Post-Announcement Period. A possible explanation of the closing prices during the Post-Announcement Period was due to the market reaction resulted from the Joint Announcement.

After considering that (i) the Share Offer Price of HK\$0.08 per Offer Share is above the average of the closing price of Shares of HK\$0.074 per Share during the Review Period; (ii) the Share Offer Price represents a premium of approximately 0.63% and 10.50% over the average of the closing price of the Shares of approximately HK\$0.0795 and HK\$0.0724 per Share as quoted on the Stock Exchange over the 90 and 180 consecutive trading days up to and including the Last Trading Day respectively; (iii) the closing price of the Shares were below the Share Offer Price for 189 trading days out of 259 trading days during the Review Period; (iv) the closing price of the Shares were below the NAV per Share for 257 trading days out of 259 trading days during the Review Period and represent an average discount of approximately 34.11% to the NAV per Share while the Share Offer Price represents a discount of approximately 28.64% to the NAV per Share; and (v) there is no guarantee that the Share price will or will not sustain and will or will not be higher than the Share Offer Price during and after the Offer Period even though the Share Offer Price is below the range of the closing price of the Shares during the Post-Announcement Period, we consider that the Share Offer Price is fair and reasonable.

Trading volume of the Shares

In addition to the historical closing price of the Shares, we have also reviewed the trading volume of the Shares during the Review Period. The table below summarizes the trading volume of the Shares during the Review Period:

Month	Total trading volume of Shares (Shares)	Number of trading days (days)	Approximate average daily trading volume of the Shares (Shares)	Approximate percentage of average daily trading volume to the total number of issued Shares held by public Shareholders (Note)
Pre-Announcement Period				
2023				
7 August to 31 August	120,000	19	6,316	0.001%
September	296,000	19	15,579	0.002%
October	276,000	20	13,800	0.002%
November	164,000	22	7,455	0.001%
December	0	19	0	0.000%
2024				
January	164,000	22	7,455	0.001%
February	2,004,000	19	105,474	0.015%
March	52,000	20	2,600	0.000%
April	608,000	20	30,400	0.004%
May	252,000	21	12,000	0.002%
June	5,688,000	19	299,368	0.044%
July	3,216,000	22	146,182	0.021%
1 August to the Last Trading Day	5,600	3	1,867	0.000%
Post-Announcement Period				
2024				
6 August to the Latest Practicable Date	2,024,000	14	144,571	0.021%

Source: Website of the Stock Exchange (www.hkex.com.hk)

Note: The percentage is calculated based on the approximate average daily trading volume of the Shares divided by the total number of issued Shares held by public Shareholders, which represents the total number of issued Shares at the end of each month or period subtracted by the number of issued Shares held by Mr. Ng and the Offeror (where applicable).

During the Pre-Announcement Period, the average daily trading volume of the Shares ranged between nil and 299,368 Shares, representing 0.000% and approximately 0.044% of the total number of issued Shares held by the public Shareholders at the end of the relevant months respectively.

During the Post-Announcement Period, the average daily trading volume of the Shares was 144,571 Shares, representing approximately 0.021% of the total number of issued Shares held by the public Shareholders at the Latest Practicable Date.

As the average daily trading volume of the Shares during the Review Period represents less than 0.050% to the total number of the Shares held by public Shareholders, the liquidity of the Shares during the Review Period has been, in our view, generally thin. Such low level of liquidity might cause difficulty for the Independent Shareholders to dispose of their Shares in the market. Therefore, we consider that the Share Offer provides an assured exit alternative for the Independent Shareholders, to realise part or all of their investments in the Shares at the Share Offer Price of HK\$0.08 per Offer Share if they wish so.

Comparable analysis

To further evaluate the fairness and reasonableness of the Share Offer Price, we have conducted comparable companies analysis to compare the Share Offer Price against the market valuation of other comparable companies using the commonly adopted comparison benchmarks in the evaluation of a company. For comparison purpose, we have considered the price-to-earnings ratio (the “**P/E Ratio**”) and price-to-book ratio (the “**P/B Ratio**”), which are the most commonly adopted valuation benchmark in the course of valuation of companies. However, given that the Group recorded net loss attributable to owners of the Company for FY2022/23 and FY2023/24 and the Group has returned to light assets business model since 2021 as discussed in the section headed “1. Background and financial information of the Group” above in this letter, the P/E Ratio and the P/B Ratio are not applicable and not appropriate in this case. Therefore, we instead used the price-to-sales ratio (the “**P/S Ratio**”) as alternative benchmark for our market comparable analysis.

As approximately 96.3% and 98.6% of the revenue of the Group was contributed by the Garment Business for FY2022/23 and for FY2023/24 respectively and the implied market capitalisation of the Company as calculated by multiplying the Share Offer Price by the number of issued Shares as at the Latest Practicable Date is approximately HK\$62.87 million, we have selected comparable companies that (i) are listed on the Stock Exchange, of which the shares are not in prolonged suspension; (ii) the market capitalisation as at the Latest Practicable Date is not more than HK\$100 million; (iii) at least 90% of their respective total revenue contributed from the sales and trading of garment and clothing products in their latest financial year; and (iv) at least 90% of their respective total revenue contributed from the customers in the PRC. However, we could only identified 2 listed companies that have fulfilled the above criteria and consider such sample size is insufficient for our analysis. Therefore, we relaxed the criterion (ii) to market capitalisation of not more than HK\$300 million and we have identified 4 listed companies that have fulfilled the relaxed criteria (the “**Comparable Companies**”). We are of the view that the Comparable Companies have been exhaustively identified and form a fair, reasonable, appropriate and representative sample for the purpose of drawing a meaningful comparison.

Set out below is the summary of our market comparable analysis:

No.	Stock code	Company name	Principal business	Market capitalisation (HK\$ million) (Note 1)	P/S Ratio (Note 2)	P/B Ratio (Note 3)
1	540	Speedy Global Holdings Limited	apparel supply chain servicing business which offers a wide range of woven wear, cut-and-sewn knitwear and sweater knitwear products to a number of owners or agents of global reputable brands	52.8	0.11	0.76
2	1146	Huicheng International Holdings Limited	design, manufacture, marketing and sale of apparel products and accessories in the PRC with a focus on menswear and property development in the PRC	234.29	1.04	0.21
3	1388	Embry Holdings Limited	manufacture and sale of ladies' brassieres, panties, swimwear, sleepwear and others	120.39	0.09	0.06
4	8456	Mansion International Holdings Limited	sale of baby and children garments	14.81	0.21	2.57
				Maximum	1.04	2.57
				Minimum	0.09	0.06
				Average	0.36	0.90
				Median	0.16	0.48
	1682	the Company	Garment Business and Financial Services Business	62.87 (Note 4)	0.65 (Note 5)	0.71 (Note 5)

Notes:

1. The market capitalisation is calculated based on the closing price and the number of issued shares (excluding treasury shares) of the Comparable Companies as at the Latest Practicable Date.
2. The P/S Ratio is calculated based on the market capitalisation of the Comparable Companies divided by their total revenue in their latest financial year.
3. The P/B Ratio is calculated based on the market capitalisation of the Comparable Companies divided by the equity attributable to the shareholders of the Comparable Companies. As mentioned above, the Group has returned to light assets business model since 2021. Therefore, the P/B Ratio of the Comparable Companies is for reference only and does not form part of our analysis.
4. The implied market capitalisation of the Company is calculated by multiplying the Share Offer Price by the number of issued Shares as at the Latest Practicable Date.
5. The implied P/S Ratio and P/B Ratio of the Company are calculated based on the implied market capitalisation of the Company divided by the revenue of the Group of approximately HK\$96.69 million for FY2023/24 and the equity attributable to the Shareholders of approximately HK\$88.09 million as at 31 March 2024 respectively.
6. As all of the Comparable Companies recorded net loss attributable to the shareholders in their latest financial year, P/E Ratio of the Comparable Companies is not available.

As shown in the above table, the P/S Ratio of the Comparable Companies ranged from 0.09 to 1.04, with an average of 0.36 and a median of 0.16. As the implied P/S Ratio of the Company is higher than the average and median of the P/S Ratio of the Comparable Companies, we consider the Share Offer Price is fair and reasonable.

7. Principal terms of the Option Offer

As disclosed in the Composite Document, Kingston Securities, for and on behalf of the Offeror and in compliance with the Takeovers Code, is making the Option Offer to the Offer Optionholders at the Share Option Price of HK\$0.01 per Share Option to cancel all outstanding Offer Options in exchange for cash.

Pursuant to Rule 13 of the Takeovers Code, the Offeror is making an appropriate cash offer to the Optionholders to cancel their Share Options. The consideration for the cancellation of each Share Option would normally be the see-through price which represents the excess of the Share Offer Price per Offer Share and the exercise price of each Share Option. As the exercise price of the Share Options is above the Share Offer Price, the “see-through” price is zero and the Option Offer Price will be a nominal value of HK\$0.01 per Share Option.

Given that the “see-through” value of the outstanding Options is zero, we consider that the Option Offer Price of HK\$0.01 per Share Option is fair and reasonable so far as the Optionholders are concerned.

RECOMMENDATION

The Share Offer

Having considered the principal factors and reasons discussed above, in particular, that:

- (i) the Group was making loss for FY2022/23 and FY2023/24;
- (ii) outlook and prospect of the Group remains uncertain;
- (iii) no business plan has been provided by the Offeror for the future business development of the Group;
- (iv) the Offeror has not determined the change of board composition of the Company as at the Latest Practicable Date;
- (v) the Share Offer Price is above the average of the closing price of Shares during the Review Period;
- (vi) the low liquidity of the Shares might cause difficulty for the Independent Shareholders to dispose of their Shares in the market and the Share Offer provides an assured exit alternative for the Independent Shareholders to realise part or all of their investments; and

- (vii) the implied P/S Ratio of the Company is higher than the average and the median of the P/S Ratio of the Comparable Companies;

we are of the view that the Share Offer (including the Share Offer Price) are fair and reasonable so far as the Company and the Independent Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to accept the Share Offer. The Independent Shareholders should read carefully the procedures for acceptance of the Share Offer as detailed in the Composite Document, the appendices to the Composite Document and the Forms of Acceptance, if they wish to accept the Share Offer.

The Option Offer

Given that the “see-through” value of the outstanding Options is zero, we consider that the Option Offer Price of a nominal value of HK\$0.01 per Share Option for the cancellation of each Share 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.

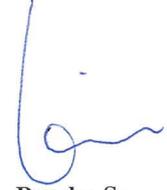
Nonetheless, we note that the Shares have been trading above the Share Offer Price since the date of the Joint Announcement up to the Latest Practicable Date. The Independent Shareholders should, having regard to their own circumstances, consider selling their Shares in the open market instead of accepting the Share Offer in the event that the net sale proceeds, net of all transaction costs, exceed the amount receivable under the Share Offer. However, the Independent Shareholders who wish to realise their investments in the Company in the open market are reminded to monitor the trading price and liquidity of the Shares during the Offer Period as a result of the relatively inactive trading in the Shares during the Review Period.

We would like to remind the Independent Shareholders that, if they consider retaining their Shares under the Share Offer, they should (i) carefully consider the potential difficulties they may encounter in disposing their investments in the Shares after the close of the Share Offer due to the historical low liquidity of the Shares; and (ii) closely monitor the development of the Group and any announcements of the Company regarding the Offeror’s business plan during and after the Offer Period.

As different Independent Shareholders or Optionholders would have different investment criteria, objectives, risk preference and tolerance level and/or circumstances, we would recommend any Independent Shareholder or Optionholders who may require advice in relation to any aspect of the Composite Document, or as to the action to be taken, to consult a licensed securities dealer, bank manager, solicitor, professional accountant, tax adviser or other professional adviser before making the decision to, whether or not, accept the Offers or disposing any of their Shares in the open market.

Yours faithfully,
For and on behalf of
INCUBORPORATE FINANCE LIMITED


Gina Leung
Managing Director


Psyche So
Associate Director

Ms. Gina Leung is a licensed person registered with the SFC and a responsible officer of INCUBORPORATE Finance Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. She has over 20 years of experience in the corporate finance industry and has participated in the provision of independent financial advisory services for various transactions involving companies listed in Hong Kong.

Ms. Psyche So is a licensed person registered with the SFC and a responsible officer of INCUBORPORATE Finance Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. She has over seven years of experience in the corporate finance industry and has participated in the provision of independent financial advisory services for various transactions involving companies listed in Hong Kong.