
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of the Offer, this Composite Document and/or the accompanying Form of Acceptance or as to the action to be taken, you should consult a licensed securities dealer or registered institution in securities, a bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Deyun Holding Ltd., you should at once hand this Composite Document and the accompanying Form of Acceptance to the purchaser(s) or transferee(s) or to the bank, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this Composite Document and the accompanying Form of Acceptance, make no representation as to their accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Composite Document and the accompanying Form of Acceptance.

This Composite Document should be read in conjunction with the accompanying Form of Acceptance, the contents of which form part of the terms and conditions of the Offer contained herein.

Glorious Way Investments Limited 榮偉投資有限公司

(incorporated in the British Virgin Islands with limited liability)

Deyun Holding Ltd. 德運控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1440)

COMPOSITE DOCUMENT RELATING TO MANDATORY UNCONDITIONAL CASH OFFER BY DAKIN SECURITIES LIMITED FOR AND ON BEHALF OF GLORIOUS WAY INVESTMENTS LIMITED TO ACQUIRE ALL THE ISSUED SHARES OF DEYUN HOLDING LTD. (OTHER THAN THOSE ALREADY OWNED OR AGREED TO BE ACQUIRED BY GLORIOUS WAY INVESTMENTS LIMITED AND PARTIES ACTING IN CONCERT WITH IT)

Financial Adviser to the Offeror



Dakin Capital Limited

Independent financial adviser to the
Independent Board Committee and Independent Shareholders



Octal Capital Limited

Capitalised terms used in this cover page shall have the same meanings as those defined in the section headed "Definitions" in this Composite Document unless the content requires otherwise.

A letter from Dakin Capital Limited containing, among other things, the details of the terms and conditions of the Offer, is set out on pages 6 to 14 of this Composite Document. A letter from the Board is set out on pages 15 to 24 of this Composite Document. A letter from the Independent Board Committee containing its recommendation in respect of the Offer to the Independent Shareholders is set out on pages 25 to 26 of this Composite Document. A letter from the Independent Financial Adviser containing its advice and recommendation to the Independent Board Committee in respect of the Offer is set out on pages 27 to 53 of this Composite Document.

The procedures for acceptance and settlement of the Offer and other related information are set out on pages 54 to 63 in Appendix I "Further Terms and Procedures of Acceptance of the Offer" to this Composite Document and in the accompanying Form of Acceptance. Acceptances of the Offer must be received by the Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by no later than 4:00 p.m. on Friday, 2 September 2022, or such later time and/or date as the Offeror may determine and announce with the consent of the Executive and in accordance with the requirements under the Takeovers Code.

Any persons including, without limitation, custodians, nominees and trustees, who would, or otherwise intend to, forward this Composite Document and/or the accompanying Form of Acceptance to any jurisdiction outside Hong Kong should read the details in this regard which are contained in the section headed "Important Notices" contained in this Composite Document, the paragraph headed "3.9 Overseas Shareholders" in the "Letter from Dakin Capital Limited" and the paragraph headed "7. Overseas Shareholders" in Appendix I "Further Terms and Procedures of Acceptance of the Offer" to this Composite Document before taking any action.

It is the responsibility of each Overseas Shareholder who wishes to accept the Offer to satisfy himself, herself or itself as to full observance of the laws and regulations of the relevant jurisdictions, including the obtaining of any governmental, exchange control or other consents and any registration or filing which may be required or the compliance with other necessary formalities, or legal and regulatory requirements and the payment of any transfer or other taxes or other required payments due from such Overseas Shareholder(s) in respect of such jurisdictions. Overseas Shareholders are advised to seek professional advice on deciding whether to accept the Offer.

This Composite Document will remain on the websites of the Stock Exchange at <http://www.hkexnews.hk> and the Company at www.ds-lace.com as long as the Offer remains open.

12 August 2022

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EXPECTED TIMETABLE

Expected Timetable

All references to dates and times contained in this Composite Document and the accompanying Form of Acceptance refer to Hong Kong dates and times.

The expected timetable set out below is indicative only and is subject to change. Any changes to the timetable will be jointly announced by the Offeror and the Company as and when appropriate.

Despatch date of this Composite Document and the accompanying Form of Acceptance and commencement date of the Offer (<i>Note 1</i>)	Friday, 12 August 2022
Offer opens for acceptances (<i>Note 1</i>)	Friday, 12 August 2022
Latest time and date for acceptance of the Offer (<i>Note 2, 3 and 5</i>)	4:00 p.m. on Friday, 2 September 2022
Closing Date (<i>Note 3 and 5</i>)	Friday, 2 September 2022
Announcement of the results of the Offer (or its extension or revision, if any) as at the Closing Date, to be posted on the website of the Stock Exchange (<i>Note 3 and 5</i>)	no later than 7:00 p.m. on Friday, 2 September 2022
Latest date for posting of remittances for the amount due in respect of valid acceptances received under the Offer on or before 4:00 p.m. on the Closing Date (<i>Note 4 and 5</i>)	Wednesday, 14 September 2022

Notes:

1. The Offer, which is unconditional in all respects, is open for acceptance on and from Friday, 12 August 2022, being the date of despatch of this Composite Document, and is capable of acceptance on and from that date until 4:00 p.m. on the Closing Date. Acceptances of the Offer shall be irrevocable and not capable of being withdrawn, except as permitted under the Takeovers Code. Please refer to the paragraph headed “5. Right of withdrawal” in Appendix I “Further Terms and Procedures of Acceptance of the Offer” to this Composite Document for further information on the circumstances where acceptances may be withdrawn.
2. Beneficial owners of Shares who hold their Shares in CCASS directly as an investor participant or indirectly via a broker or custodian participant should note the timing requirements (as set out in Appendix I “Further Terms and Procedures of Acceptance of the Offer” to this Composite Document) for causing instructions to be made to CCASS in accordance with the General Rules of CCASS and CCASS Operational Procedures. Further details in this regard have been set out in Appendix I “Further Terms and Procedures of Acceptance of the Offer” to this Composite Document.
3. In accordance with the Takeovers Code, the Offer must initially be open for acceptance for at least 21 days following the date on which this Composite Document is posted. The latest time and date for acceptance of the Offer is at 4:00 p.m. on Friday, 2 September 2022 unless the Offeror revises or extends the Offer in accordance with the Takeovers Code. The Offeror has the right under the Takeovers Code to extend the Offer until such date as it may determine in accordance with the Takeovers Code (or as permitted by the Executive in accordance with the Takeovers Code). The Offeror and the Company will jointly issue an announcement through the website of the Stock Exchange by 7:00 p.m. on the Closing Date stating the results of the Offer and whether the Offer has been extended, revised or expired. In any event that the Offeror decides to extend the Offer, the joint announcement will state the next closing date of the Offer or that the Offer will remain open until further notice. In the latter case, at least 14 days’ notice in writing must be given before the Offer is closed to those Independent Shareholders who have not accepted the Offer.

EXPECTED TIMETABLE

4. Remittances in respect of the cash consideration (after deducting the seller's ad valorem stamp duty in respect of acceptances of the Offer) payable for the Offer Shares tendered under the Offer will be despatched to the accepting Independent Shareholder(s) (to the address specified on the Form of Acceptance) by ordinary post at his/her/its own risk as soon as possible, but in any event within seven (7) Business Days following the date of receipt by the Registrar of the duly completed and signed Form of Acceptance and all relevant documents of title of the Offer Shares required to render the acceptance under the Offer complete and valid in accordance with the Takeovers Code.
5. The latest time and date for acceptance of the Offer and the latest date for posting of remittances for the amounts due under the Offer in respect of valid acceptances will not take effect if there is a tropical cyclone warning signal number 8 or above, or a "black rainstorm warning signal" or "extreme condition" caused by super typhoon, in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on the latest date for acceptance of the Offer and the latest date for posting of remittances for the amounts due under the Offer in respect of valid acceptances. In such cases, the latest time for acceptance of the Offer and the posting of remittances will be rescheduled to 4:00 p.m. on the following Business Day which does not have either of those warnings in force in Hong Kong at any time between 12:00 noon and 4:00 p.m.

Save as mentioned above, if the latest time for the acceptance of the Offer does not take effect on the date and time as stated above, other dates mentioned above may be affected. The Offeror and the Company will notify the Independent Shareholders by way of announcement(s) on any change to the expected timetable as soon as practicable.

IMPORTANT NOTICE

NOTICE TO THE OVERSEAS SHAREHOLDERS

The making of the Offer to persons with a registered address in jurisdictions outside Hong Kong may be prohibited or affected by the laws and/or regulations of the relevant jurisdictions. Overseas Shareholders who are citizens or residents or nationals of jurisdictions outside Hong Kong should inform themselves about and observe any applicable legal and regulatory requirements and, where necessary, seek professional legal advice.

It is the responsibility of any such person who wishes to accept the Offer to satisfy himself/herself/itself as to the full observance of the laws and regulations of the relevant jurisdiction in connection therewith, including the obtaining of any governmental, exchange control or other consents and any registration or filing which may be required, or the compliance with other necessary formalities or legal and regulatory requirements and the payment of any transfer or other taxes or other required payments due from such persons in respect of such jurisdiction.

The Offeror and parties acting in concert with it, the Company, the Vendor, the Guarantor, the Independent Financial Adviser, Dakin Securities Limited, Dakin Capital Limited, the Registrar or any of their respective ultimate beneficial owners, directors, officers, agents, advisers and associates and any other person involved in the Offer shall be entitled to be fully indemnified and held harmless by the Overseas Shareholders for any taxes as such persons may be required to pay. Such holders should inform themselves about and observe any applicable legal or regulatory requirements.

Please see the paragraph headed “3.9 Overseas Shareholders” in the “Letter from Dakin Capital Limited” and the paragraph headed “7. Overseas Shareholders” in Appendix I “Further Terms and Procedures of Acceptance of the Offer” to this Composite Document for further details.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Composite Document contains forward-looking statements, which may be identified by words such as “believe”, “expect”, “anticipate”, “intend”, “plan”, “seek”, “estimate”, “will”, “would” or words of similar meaning, that involve risks and uncertainties, as well as assumptions. All statements other than statements of historical fact are statements that could be deemed forward-looking statements. The forwardlooking statements included herein are made only as at the Latest Practicable Date. The Offeror and the Company assume no obligation and do not intend to correct or update the forward-looking statements or opinions contained in this Composite Document, except as required pursuant to applicable laws or regulations, including but not limited to the Listing Rules and/or the Takeovers Code.

The Company will notify the Independent Shareholders of any material change to information contained or referred to in the Composite Document as soon as possible in accordance with Rule 9.1 of the Takeovers Code.

DEFINITIONS

In this Composite Document, unless the context otherwise requires, the following expressions shall have the following meaning:

“Acquisition”	the purchase of the Sale Shares by the Offeror from the Vendor in accordance with the terms of the Sale and Purchase Agreement
“acting in concert”	has the meaning ascribed to it under the Takeovers Code
“associate(s)”	has the meaning ascribed to it under the Takeovers Code
“Board”	the board of Directors
“Business Day”	a day on which the Stock Exchange is open for the transaction of business
“CCASS”	the Central Clearing and Settlement System established and operated by the Hong Kong Securities Clearing Company Limited
“Closing Date”	2 September 2022, the closing date of the Offer, which is 21 days following the date on which this Composite Document is posted, or if the Offer is extended, any subsequent closing date as the Offeror may determine and announce with the consent of the Executive and in accordance with the Takeovers Code
“Company”	Deyun Holding Ltd. (德運控股有限公司*), a company incorporated in the Cayman Islands with limited liability and the Shares of which are listed on the Main Board (stock code: 1440)
“Completion”	completion of the Acquisition in accordance with the terms and conditions of the Sale and Purchase Agreement
“Completion Date”	the date of Completion, being 17 June 2022
“Composite Document”	this composite offer and response document jointly issued by the Offeror and the Company to the Shareholders in connection with the Offer in compliance with the Takeovers Code containing, among other things, details of the Offer (accompanied by the Form of Acceptance) and the respective letters of advice from the Independent Board Committee and the Independent Financial Adviser
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Consideration”	the consideration of HK\$175,000,000 paid by the Offeror to the Vendor for the Acquisition
“controlling shareholder(s)”	has the meaning ascribed thereto under the Listing Rules

DEFINITIONS

“Dakin Capital Limited”	Dakin Capital Limited, a corporation licensed to carry out type 6 (advising on corporate finance) regulated activity under the SFO, being the financial adviser to the Offeror in respect of the Offer
“Dakin Securities Limited”	Dakin Securities Limited, a corporation licensed to carry out type 1 (dealing in securities) and type 4 (advising on securities) regulated activities under the SFO
“Director(s)”	the director(s) of the Company
“Executive”	the Executive Director of the Corporate Finance Division of the SFC from time to time and any delegate of such Executive Director
“Form of Acceptance”	the form of acceptance and transfer in respect of the Offer accompanying this Composite Document
“Group”	the Company and its subsidiaries
“Guarantor”	Lin Minqiang, the executive Director and the Chairman of the Board and the controlling shareholder of the Vendor
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee of the Board, comprising all independent non-executive Directors, namely Mr. Sheng Zijiu, Mr. Chow Kit Ting, Mr. Yip Koon Shing and Mr. Wong Chun Sek Edmund, established for the purpose of advising the Independent Shareholders in respect of the Offer and in particular as to whether the terms of the Offer are fair and reasonable and as to the acceptance of the Offer
“Independent Financial Adviser” or “Octal Capital”	Octal Capital Limited, a corporation licensed to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser appointed for the purpose of advising the Independent Board Committee and the Independent Shareholders in respect of the Offer
“Independent Shareholder(s)”	the Shareholder(s), other than the Vendor, the Offeror and parties acting in concert with any of them

DEFINITIONS

“Irrevocable Undertaking”	the irrevocable undertaking given by the Vendor in favour of the Offeror, pursuant to which the Vendor has irrevocably and unconditionally undertaken that the Vendor (i) shall not accept the Offer in respect of the Remaining Shares and shall not sell the Remaining Shares to the Offeror or parties acting in concert with it; (ii) shall not, directly or indirectly, sell, transfer or dispose of, grant any option, charge or other encumbrances or rights over the Remaining Shares; and (iii) the Remaining Shares will remain registered in the Vendor’s name, until the Closing Date of the Offer
“Joint Announcement”	the joint announcement issued by the Offeror and the Company dated 27 June 2022 in relation to, among other things, the Sale and Purchase Agreement and the Offer
“Last Trading Day”	16 June 2022, being the last trading day of the Shares immediately prior to the halt in trading of the Shares on the Stock Exchange at 9:00 a.m. on 17 June 2022 pending the release of the Joint Announcement
“Latest Practicable Date”	9 August 2022, being the latest practicable date prior to the printing of this Composite Document for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended, supplemented or otherwise modified from time to time
“Main Board”	the main board maintained and operated by the Stock Exchange
“Mr. Tsoi”	Mr. Tsoi Wing Sing (蔡榮星), being the sole and ultimate beneficial owner of the Offeror
“Offer”	the mandatory unconditional cash offer being made by Dakin Securities Limited, on behalf of the Offeror, to acquire all the issued Shares (other than those already owned or agreed to be acquired by the Offeror and parties acting in concert with it) in accordance with the Takeovers Code
“Offer Period”	has the meaning ascribed thereto under the Takeovers Code, being the period commencing from the date of the Joint Announcement (i.e. 27 June 2022) up to and including the Closing Date
“Offer Price”	the price per Offer Share at which the Offer is made in cash, being HK\$0.79 per Offer Share
“Offer Share(s)”	all the Share(s) in issue, other than those already owned or agreed to be acquired by the Offeror and parties acting in concert with it, and an “Offer Share” means any of them

DEFINITIONS

“Offeror”	Glorious Way Investments Limited (榮偉投資有限公司), a company incorporated in the British Virgin Islands with limited liability, the entire issued share capital of which is beneficially owned by Mr. Tsoi
“Overseas Shareholder(s)”	Independent Shareholder(s) whose address(es), as shown on the register of members of the Company, is/are outside Hong Kong
“PRC”	the People’s Republic of China, which shall for the purpose of this Composite Document, exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Registrar”	Computershare Hong Kong Investor Services Limited, the Hong Kong branch share registrar and transfer office of the Company, with its address at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong
“Relevant Period”	the period from 27 December 2021, being the date falling six months preceding the date of the commencement of the Offer Period, up to and including the Latest Practicable Date
“Remaining Shares”	126,000,000 Shares, representing 10.00% of the total issued share capital of the Company as at the Latest Practicable Date, which would be continued to be held and owned by the Vendor immediately following the Completion
“RMB”	Renminbi, the lawful currency of the PRC
“Sale and Purchase Agreement”	the sale and purchase agreement dated 17 June 2022 entered into between the Vendor, the Guarantor and the Offeror in relation to the sale and purchase of the Sale Shares
“Sale Shares”	724,500,000 Shares, representing approximately 57.50% of the issued share capital of the Company as at the Latest Practicable Date, acquired by the Offeror from the Vendor subject to the terms of the Sale and Purchase Agreement, and a “Sale Share” means any of them
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company

DEFINITIONS

“Shareholder(s)”	holder(s) of the issued Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder(s)”	has the meanings ascribed thereto under the Listing Rules
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Vendor”	Deyong Investment Co., Ltd, a company incorporated in the British Virgin Islands with limited liability, being the vendor under the Sale and Purchase Agreement and which is owned as to 60 % by Mr. Lin Minqiang, 11.6% by Mr. Lin Bingzhong, 10.54% by Mr. Lin Chaoji, 9.22% by Mr. Lin Chaowei and 8.64% by Mr. Lin Chaowen
“%”	per cent.

* For identification purpose only

Unless stated otherwise, in this Composite Document, amounts denominated in RMB have been translated into HK\$ at the exchange rate of RMB1.00 to HK\$1.17. No representation is made that the HK\$ amounts could have been or could be converted into RMB at such rate or any other rate or at all. Certain amounts and percentage figures in this Composite Document have been subject to rounding adjustments.

LETTER FROM DAKIN CAPITAL LIMITED



12 August 2022

To the Independent Shareholders,

Dear Sir or Madam,

**COMPOSITE DOCUMENT RELATING TO
MANDATORY UNCONDITIONAL CASH OFFER BY
DAKIN SECURITIES LIMITED
FOR AND ON BEHALF OF
GLORIOUS WAY INVESTMENTS LIMITED
TO ACQUIRE ALL THE ISSUED SHARES OF
DEYUN HOLDING LTD.
(OTHER THAN THOSE ALREADY OWNED OR AGREED
TO BE ACQUIRED BY GLORIOUS WAY INVESTMENTS LIMITED
AND
PARTIES ACTING IN CONCERT WITH IT)**

1. INTRODUCTION

Reference is made to the Joint Announcement.

On 17 June 2022 (after trading hours), the Vendor and the Offeror entered into the Sale and Purchase Agreement, pursuant to which the Vendor agreed to sell and the Offeror agreed to purchase the Sale Shares, being 724,500,000 Shares, representing approximately 57.50% of the total issued share capital of the Company as at the Latest Practicable Date, for the Consideration of HK\$175,000,000 (equivalent to HK\$0.242 per Sale Share). Completion took place immediately upon the signing of the Sale and Purchase Agreement on the Completion Date, being 17 June 2022.

Upon Completion, the Vendor continues to hold the Remaining Shares, being 126,000,000 Shares, representing 10.00% of the total issued share capital of the Company as at the Latest Practicable Date.

Immediately prior to the Completion, the Offeror and parties acting in concert with it were interested in an aggregate of 160,405,000 Shares, representing approximately 12.73% of the total issued share capital of the Company as at the Latest Practicable Date. Immediately following Completion and as at the Latest Practicable Date, the Offeror and parties acting in concert with it are interested in an aggregate of 884,905,000 Shares, representing approximately 70.23% of the total issued share capital of the Company.

LETTER FROM DAKIN CAPITAL LIMITED

Upon the Completion, the Offeror is therefore required under Rule 26.1 of the Takeovers Code to make an Offer for all the issued Shares (other than those already owned or agreed to be acquired by the Offeror and parties acting in concert with it).

This letter forms part of this Composite Document and sets out, among other things, details of the Offer, information on the Offeror, and the Offeror's intentions in relation to the Group. Further details on the terms and the procedures for acceptance of the Offer are set out in Appendix I "Further Terms and Procedures of Acceptance of the Offer" to this Composite Document and the accompanying Form of Acceptance. The Independent Shareholders are strongly advised to carefully consider the information contained in the "Letter from the Board", the "Letter from the Independent Board Committee", the "Letter from the Independent Financial Adviser", the appendices to this Composite Document and the accompanying Form of Acceptance, and to consult their own professional advisers before reaching a decision as to whether or not to accept the Offer.

2. THE IRREVOCABLE UNDERTAKING

On 17 June 2022, the Vendor has given the Irrevocable Undertaking in favour of the Offeror, pursuant to which the Vendor has irrevocably and unconditionally undertaken that the Vendor, (i) shall not accept the Offer in respect of the Remaining Shares and shall not sell the Remaining Shares to the Offeror or parties acting in concert with it; (ii) shall not, directly or indirectly, sell, transfer or dispose of, grant any option, charge or other encumbrances or rights over the Remaining Shares; and (iii) the Remaining Shares will remain registered in the Vendor's name, until the Closing Date of the Offer.

3. MANDATORY UNCONDITIONAL CASH OFFER

3.1 Principal terms of the Offer

Dakin Securities Limited hereby make the Offer, for and on behalf of the Offeror and in compliance with the Takeovers Code, on the terms set out in this Composite Document issued in accordance with the Takeovers Code on the following basis:

For each Offer Share HK\$0.79 in cash

The Offer Price of HK\$0.79 per Offer Share represents the highest price per Share paid by the Offeror and parties acting in concert with it during the six-month period immediately preceding the commencement of the Offer Period. The Offer is extended to all Shareholders other than the Offeror and parties acting in concert with it in accordance with the Takeovers Code. The Vendor has irrevocably undertaken not to accept the Offer in respect of the Remaining Shares. The Offer Shares to be acquired under the Offer shall be fully paid and acquired free from all encumbrances, and together with all rights and benefits attached thereto, including all rights to any dividend or other distribution declared, made or paid on or after the date on which the Offer is made, being the date of despatch of this Composite Document.

Since the listing of the Company and up to the Latest Practicable Date, the Company has not declared any dividend or distribution which remain unpaid and the Company does not intend to declare any dividend or distribution prior to the close of the Offer.

LETTER FROM DAKIN CAPITAL LIMITED

The Offer is unconditional in all respects and is not conditional upon acceptances being received in respect of a minimum number of the Shares or any other conditions.

3.2 Comparisons of value

The Offer Price of HK\$0.79 per Offer Share represents:

- a. a discount of approximately 15.96% to the closing price of HK\$0.94 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- b. a premium of approximately 5.33% to the closing price of HK\$0.75 per Share as quoted on the Stock Exchange on the Last Trading Day;
- c. a premium of approximately 3.67% to the average closing price of approximately HK\$0.762 per Share as quoted on the Stock Exchange for the 5 consecutive trading days immediately prior to and including the Last Trading Day;
- d. a premium of approximately 3.95% to the average closing price of approximately HK\$0.76 per Share as quoted on the Stock Exchange for the 10 consecutive trading days immediately prior to and including the Last Trading Day;
- e. a premium of approximately 6.04% to the average closing price of approximately HK\$0.745 per Share as quoted on the Stock Exchange for the 30 consecutive trading days immediately prior to and including the Last Trading Day;
- f. a premium of approximately 154.84% over the audited consolidated net asset value attributable to the Shareholders of approximately HK\$0.31 per Share as at 31 December 2021 (being the date to which the latest audited consolidated annual results of the Group were made up), calculated based on the Group's audited consolidated net assets attributable to the Shareholders of approximately RMB334,706,000 (equivalent to approximately HK\$391,606,000) as at 31 December 2021 and 1,260,000,000 Shares in issue as at the Latest Practicable Date; and
- g. a premium of approximately 150.79% over the unaudited consolidated net asset value attributable to the Shareholders of approximately HK\$0.315 per Share as at 30 June 2022 (being the date to which the latest unaudited consolidated interim results of the Group were made up), calculated based on the Group's unaudited consolidated net assets attributable to the Shareholders of approximately RMB339,726,000 (equivalent to approximately HK\$397,479,420) as at 30 June 2022 and 1,260,000,000 Shares in issue as at the Latest Practicable Date.

3.3 Highest and lowest closing Share prices

The highest and lowest closing prices of the Shares as quoted on the Stock Exchange during the Relevant Period were HK\$1.39 per Share (on 15 July 2022) and HK\$0.395 per Share (on 15 March 2022), respectively.

LETTER FROM DAKIN CAPITAL LIMITED

3.4 Value of the Offer

Based on the Offer Price of HK\$0.79 per Offer Share and 1,260,000,000 Shares in issue as at the Latest Practicable Date, the entire issued share capital of the Company is valued at HK\$995,400,000. Assuming there being no change in the issued share capital of the Company from the Latest Practicable Date up to the close of the Offer and excluding the aggregate of 884,905,000 Shares held by the Offeror and parties acting in concert with it immediately after the Completion, 375,095,000 Shares will be subject to the Offer. Based on the Offer Price of HK\$0.79 per Offer Share, the value of the Offer will be HK\$296,325,050.

3.5 Confirmation of sufficient financial resources

The maximum amount of cash payable by the Offeror in respect of acceptances of the Offer is HK\$196,785,050, assuming full acceptance of the Offer (excluding the Remaining Shares held by the Vendor which are subject to the Irrevocable Undertaking) and there being no change in the issued share capital of the Company from the Latest Practicable Date up to the close of the Offer. The Offeror intends to finance the consideration payable for the Offer by its internal resources.

Dakin Capital Limited, being the financial adviser to the Offeror in respect of the Offer, is satisfied that sufficient financial resources are, and will remain, available to the Offeror to satisfy the total consideration payable by the Offeror upon full acceptance of the Offer.

3.6 Effect of accepting the Offer

Acceptance of the Offer by any Independent Shareholders will be deemed to constitute a warranty by such person that all the Shares sold by such person under the Offer are free from all encumbrances, and together with all rights and benefits attached thereto, including all rights to any dividend or other distribution declared, made or paid on or after the date on which the Offer is made, being the date of despatch of this Composite Document.

Acceptance of the Offer will be irrevocable and not capable of being withdrawn, except as permitted under the Takeovers Code.

Since the listing of the Company and up to the Latest Practicable Date, the Company has not declared any dividend or distribution which remain unpaid and the Company does not intend to declare any dividend or distribution prior to the close of the Offer.

3.7 Payment

Payment in cash in respect of acceptances of the Offer will be made as soon as possible within seven (7) Business Days of the date of receipt of a duly completed acceptance of the Offer Shares. Relevant documents evidencing title must be received by or on behalf of the Offeror to render such acceptance of the Offer complete and valid.

No fractions of a cent (HK\$) will be payable and the amount of the consideration payable to the Independent Shareholder who accepts the Offer will be rounded up to the nearest cent (HK\$).

LETTER FROM DAKIN CAPITAL LIMITED

3.8 Condition to the Offer

The Offer is unconditional in all respects and is not conditional upon acceptances being received in respect of a minimum number of the Shares or any other conditions.

3.9 Overseas Shareholders

The Offeror intends to make the Offer available to all Independent Shareholders, including the Overseas Shareholders.

However, the Offer is in respect of securities of a company incorporated in the Cayman Islands and is subject to the procedural and disclosure requirements of Hong Kong which may be different from other jurisdictions. The Overseas Shareholders who wish to participate in the Offer but with a registered address outside Hong Kong may be subject to, and may be limited by, the laws and regulations of their respective jurisdictions in connection with their participation in the Offer. The Overseas Shareholders and beneficial owners of the Shares who are citizens, residents or nationals of a jurisdiction outside Hong Kong should observe relevant applicable legal or regulatory requirements and, where necessary, seek legal advice in respect of the Offer. It is the responsibility of the Overseas Shareholders and overseas beneficial owners of the Shares who wish to accept the Offer to satisfy themselves as to the full observance of the laws and regulations of the relevant jurisdictions in connection with the acceptance of the Offer (including the obtaining of any governmental or other consent which may be required or the compliance with other necessary formalities and the payment of any transfer or other taxes due from such shareholders and beneficial owners in respect of such jurisdictions).

Any acceptance by any Overseas Shareholders and overseas beneficial owners of the Shares will be deemed to constitute a representation and warranty from such Overseas Shareholders or overseas beneficial owners of the Shares, as applicable, to the Offeror that the local laws and requirements have been complied with. Overseas Shareholders and overseas beneficial owners of the Shares should consult their own professional advisers if in doubt.

3.10 Hong Kong stamp duty

Sellers' Hong Kong ad valorem stamp duty on acceptances of the Offer at a rate of 0.13% of the consideration payable in respect of the relevant acceptances or, if higher, the market value of the Offer Shares subject to such acceptance, will be deducted from the amount payable to the Independent Shareholders who accept the Offer. The Offeror will arrange for payment of seller's ad valorem stamp duty on behalf of the Independent Shareholders who accept the Offer and pay the buyer's Hong Kong ad valorem stamp duty in connection with the acceptance of the Offer and the transfers of the relevant Shares in accordance with the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong).

LETTER FROM DAKIN CAPITAL LIMITED

3.11 Taxation advice

The Independent Shareholders are recommended to consult their own professional advisers if they are in any doubt as to the taxation implications of accepting or rejecting the Offer. None of the Offeror, parties acting in concert with the Offeror, the Company, the Vendor, the Guarantor, the Independent Financial Adviser, Dakin Securities Limited, Dakin Capital Limited, the Registrar and (as the case may be) their respective ultimate beneficial owners, directors, officers, agents or associates or any other person involved in the Offer accepts responsibility for any taxation effects on, or liabilities of, any persons as a result of their acceptance or rejection of the Offer.

3.12 Nominee registration

To ensure equality of treatment of all Independent Shareholders, those registered Independent Shareholders who hold Shares as nominees on behalf of more than one beneficial owner should, as far as practicable, treat the holding of each beneficial owner separately. It is essential for beneficial owners of the Shares whose investments are registered in the names of nominees who wish to accept the Offer, to provide instructions to their nominees of their intentions with regard to the Offer.

3.13 Procedures for acceptance and settlement

Your attention is drawn to “Further terms and procedures of acceptance of the Offer” as set out in Appendix I “Further Terms and Procedures of Acceptance of the Offer” to this Composite Document and the accompanying Form of Acceptance.

4. INFORMATION ON THE PARTIES

4.1 The Offeror

The Offeror is a company incorporated in the British Virgin Islands with limited liability and is principally engaged in investment holding. As at the Latest Practicable Date, Mr. Tsoi is the sole director and owner of the entire issued share capital of the Offeror.

Mr. Tsoi, aged 60, is the director of Calson Investment Limited, a footwear distribution enterprise supplying leather, PVC, textile shoes, sandals, etc. to customers worldwide and a director of Calson Industrial International Company Limited, a company engaged in property development business. Mr. Tsoi is also the executive director of Changzhou Qifa Shoes Co., Ltd.* (常州啟發鞋業有限公司), a company engaged in manufacturing and distribution of shoes and Changzhou Qichen Investment Co., Ltd.* (常州啟辰投資有限公司), a company engaged in real estate sales and property management, and a supervisor of Putian Qiming Shoes Co., Ltd.* (莆田啟明鞋業有限公司), a company engaged in manufacturing and distribution of shoes.

LETTER FROM DAKIN CAPITAL LIMITED

Mr. Tsoi is also a Standing Committee of the Hunan Provincial Committee of the Chinese People's Political Consultative Conference ("CPPCC") Hong Kong Convener, Vice-Chairman of the Hong Kong Provincial CPPCC Member Association, School Supervisor of TWGHs Tsoi Wing Sing Primary School* (東華三院蔡榮星小學校監), Deputy Chairman of Hong Kong Volunteers Federation* (香港義工聯盟常務副主席) and Expert of Silk Road Planning Research Center* (絲路規劃研究中心專家). Mr. Tsoi was also a Standing Committee Member of the 5th Fujian Putian Committee of the CPPCC, the chairman of Tung Wah Group of Hospitals from 2019 to 2020, and the vice chairman of Tung Wah Group of Hospitals from 2015 to 2019. Mr. Tsoi was also awarded the Bronze Bauhinia Star in recognition of his significant contributions and outstanding service over a long period of time in Hong Kong.

4.2 The Group

Details of the information on the Group are set out in the paragraph headed "Information on the Group" in the "Letter from the Board" as set out on page 19 of this Composite Document.

5. INTENTIONS OF THE OFFEROR REGARDING THE GROUP

The Offeror intends to continue the existing principal business of the Group substantially in the current state following Completion and the close of the Offer, and will maintain the listing status of the Company. The Offeror has no intention to introduce major changes in the business of the Group or to dispose of or re-deploy the fixed assets of the Group other than in the ordinary course of business. As at the Latest Practicable Date, the Offeror has no intention, understanding, negotiation or arrangement (concluded or otherwise) to downsize, cease or dispose of any of the existing businesses of the Group. The Offeror intends to nominate Mr. Tsoi as the new executive Director of the Company and continue the employment of the existing management and employees of the Group. The Offeror also intends to review the business activities, operations and financial position of the Group to formulate business plans and strategies for the future business development of the Group. Depending on the results of the review, the Offeror may explore other related businesses opportunities for the Group and/or seek to expand the geographical coverage of the existing principal business of the Group. As at the Latest Practicable Date, the Offeror has no definitive plan and strategy regarding the future development of the Group. As at the Latest Practicable Date, no investment or business opportunity has been identified, nor has the Offeror entered into any agreement, arrangement, understandings or negotiation in relation to the injection of any assets or business into the Group.

The Offeror intends to nominate Mr. Tsoi as the new executive Director of the Company. The Company intends to appoint Mr. Tsoi as the new executive Director and the proposed appointment is expected to take effect after the despatch of this Composite Document. The biographical details of Mr. Tsoi are set out in the paragraph headed "4. Information on the parties – 4.1 The Offeror" in this section.

The Board currently comprises 10 Directors, in particular six executive Directors and four independent non-executive Directors. Save as disclosed above, as at the Latest Practicable Date, the Offeror has not reached any final decision as to the identities of the other new Director(s) which will be nominated and the existing Director(s) which will resign. Any changes to the members of the Board will be made in compliance with the Takeovers Code and/or the Listing Rules and further announcement(s) will be made as and when appropriate.

LETTER FROM DAKIN CAPITAL LIMITED

6. PUBLIC FLOAT AND MAINTAINING THE LISTING STATUS OF THE COMPANY

The Stock Exchange has stated that if, at the close of the Offer, less than the minimum prescribed percentage applicable to the Company, being 25% of the total number of issued Shares, is held by the public at all times, or if the Stock Exchange believes that:

- a false market exists or may exist in the trading of the Shares; or
- 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.

Therefore, it should be noted that upon close of the Offer, there may be insufficient public float of the Shares and the trading in the Shares may be suspended until sufficient public float exists for the Shares. The Offeror intends that the Company will remain listed on the Stock Exchange after the close of the Offer.

The Offeror does not intend to avail itself of any powers of compulsory acquisition of any outstanding Offer Shares after the close of the Offer. The sole director of the Offeror and the new directors to be appointed to the Board of the Company will jointly and severally undertake to the Stock Exchange to take appropriate steps to ensure that sufficient public float (i.e. not less than 25% of the entire issued share capital of the Company) exists in the Shares at all times.

Immediately after the Completion and as at the Latest Practicable Date, the Offeror, Mr. Tsoi and the Vendor held a total of 970,000,000 Shares, representing approximately 76.98% of the total issued share capital of the Company as at the Latest Practicable Date. Accordingly, as at the Latest Practicable Date, the Company cannot fulfill the minimum public float requirement set out under Rule 8.08(1)(a) of the Listing Rules. As such, the Company has made an application to the Stock Exchange for a temporary waiver from strict compliance with Rule 8.08(1)(a) of the Listing Rules (the “**Waiver**”) for a period of two months after the close of the Offer. As disclosed in the announcement of the Company dated 7 July 2022 regarding the Waiver, on 5 July 2022, the Company was granted the Waiver by the Stock Exchange for the period from 17 June 2022 to 30 September 2022. The Offeror will take appropriate steps to restore the required minimum public float after the close of the Offer as early as practicable. As disclosed above, the Offeror intends that the Company will remain listed on the Stock Exchange after the close of the Offer. The Offeror proposed to place down certain number of Shares held by it to independent third party investors (the “**Placing**”) after the close of the Offer for the purpose of restoring the Company’s minimum public float to at least 25% in compliance with the Listing Rules. As at the Latest Practicable Date, the Offeror is identifying a placing agent for the Placing, to the extent allowed under the Takeovers Code and the Placing will commence after the Closing Date of the Offer. Further announcement(s) will be made by the Company regarding the restoration of public float as and when appropriate.

7. ACCEPTANCE AND SETTLEMENT OF THE OFFER

Your attention is drawn to the details regarding the procedures for acceptance and settlement of the Offer as set out in Appendix I “Further Terms and Procedures of Acceptance of the Offer” to this Composite Document and the accompanying Form of Acceptance.

LETTER FROM DAKIN CAPITAL LIMITED

8. COMPULSORY ACQUISITION

The Offeror does not intend to exercise any power of compulsory acquisition of any Offer Shares outstanding and not acquired under the Offer after the close of the Offer.

9. GENERAL INFORMATION

This Composite Document has been prepared for the purposes of complying with the laws of Hong Kong, the Takeovers Code and the Listing Rules and the information disclosed may not be the same as which would have been disclosed if this Composite Document had been prepared in accordance with the laws of jurisdictions outside Hong Kong.

The attention of the Overseas Shareholders is drawn to paragraph 7 in Appendix I “Further Terms and Procedures of Acceptance of the Offer” to this Composite Document.

All documents and remittances to be sent to the Independent Shareholders will be sent to them by ordinary post at their own risk. Such documents and remittances will be sent to the Independent Shareholders at their respective addresses as they appear in the registers of the members of the Company and in the case of joint holders, to such holder whose name appears first in the relevant registers. The Offeror, parties acting in concert with the Offeror, the Company, the Vendor, the Guarantor, the Independent Financial Adviser, Dakin Securities Limited, Dakin Capital Limited, the Registrar and (as the case may be) their respective ultimate beneficial owners, directors, officers, agents, advisers and associates or any other parties involved in the Offer will not be responsible for any loss or delay in transmission or any other liabilities that may arise as a result thereof or in connection therewith. Further details have been set out in Appendix I “Further Terms and Procedures of Acceptance of the Offer” to this Composite Document and in the Form of Acceptance.

10. ADDITIONAL INFORMATION

Your attention is drawn to the additional information regarding the Offer set out in the appendices to this Composite Document and the accompanying Form of Acceptance, which forms part of this Composite Document. In addition, your attention is also drawn to the “Letter from the Board”, the “Letter from the Independent Board Committee”, the “Letter from the Independent Financial Adviser” and other information about the Group, which are set out in this Composite Document before reaching a decision as to whether or not to accept the Offer.

Yours faithfully,
For and on behalf of
Dakin Capital Limited
Tam Kin Fong
Managing Director

LETTER FROM THE BOARD

Deyun Holding Ltd.

德運控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1440)

Executive Directors:

Mr. Lin Minqiang
Mr. Lin Chaowei
Mr. Lin Chaowen
Mr. Lin Bingzhong
Mr. Wei Cunzhuo
Ms. Lin Lili

Registered Office:

71 Fort Street
P.O. Box 500
George Town
Grand Cayman
KY1-1106
Cayman Islands

Independent non-executive Directors:

Mr. Sheng Zijiu
Mr. Chow Kit Ting
Mr. Yip Koon Shing
Mr. Wong Chun Sek Edmund

*Head office and principal place of
business in Hong Kong:*

Unit 1705, 17/F
Strand 50
50 Bonham Strand
Sheung Wan
Hong Kong

12 August 2022

To the Independent Shareholders

Dear Sirs,

**MANDATORY UNCONDITIONAL CASH OFFER BY
DAKIN SECURITIES LIMITED
FOR AND ON BEHALF OF
GLORIOUS WAY INVESTMENTS LIMITED
TO ACQUIRE ALL THE ISSUED SHARES OF
DEYUN HOLDING LTD.
(OTHER THAN THOSE ALREADY OWNED OR
AGREED TO BE ACQUIRED BY GLORIOUS WAY INVESTMENTS LIMITED
AND
PARTIES ACTING IN CONCERT WITH IT)**

* For identification purpose only

LETTER FROM THE BOARD

INTRODUCTION

1. Introduction

On 27 June 2022, the Offeror and the Company published the Joint Announcement to announce that on 17 June 2022 (after trading hours), the Vendor (as vendor), the Guarantor (as guarantor) and the Offeror (as purchaser) entered into the Sale and Purchase Agreement pursuant to which the Vendor conditionally agreed to sell and the Offeror conditionally agreed to purchase the Sale Shares (being 724,500,000 Shares), representing approximately 57.50% of the total issued share capital of the Company as at the date of the Joint Announcement, for a total cash consideration of HK\$175,000,000 (equivalent to HK\$0.242 per Sale Share). Completion took place immediately upon the signing of the Sale and Purchase Agreement on the Completion Date, being 17 June 2022, and the Offeror paid the Consideration in cash to the Vendor at Completion.

Upon Completion, the Vendor continue to hold the Remaining Shares, being 126,000,000 Shares, representing 10.00% of the total issued share capital of the Company as at the Latest Practicable Date.

Immediately prior to Completion, the Offeror and parties acting in concert with it were interested in an aggregate of 160,405,000 Shares, representing approximately 12.73% of the total issued share capital of the Company as at the Latest Practicable Date. Immediately following Completion and as at the Latest Practicable Date, the Offeror and the parties acting in concert with it are interested in an aggregate of 884,905,000 Shares (representing approximately 70.23% of the total issued share capital of the Company). Accordingly, the Offeror is required under Rule 26.1 of the Takeovers Code to make a mandatory unconditional cash offer for all the issued Shares (other than those already owned or agreed to be acquired by the Offeror and parties acting in concert with it).

2. The Offer

Dakin Securities Limited is making the Offer for and on behalf of the Offeror in compliance with the Takeovers Code on the following terms:

For each Offer Share HK\$0.79 in cash

The Offer Price of HK\$0.79 per Offer Share under the Offer represents the highest price per Share paid by the Offeror and parties acting in concert with it during the six-month period immediately preceding the commencement of the Offer Period. The Offer is unconditional in all respects.

Further details of the terms of the Offer and the procedures for acceptances are set out in Appendix I “Further Terms and Procedures of Acceptance of the Offer” to the Composite Document and the accompanying Form of Acceptance.

Effect of accepting the Offer

Acceptance of the Offer by any Independent Shareholders will be deemed to constitute a warranty by such person that all the Shares sold by such person under the Offer are free from all encumbrances and with all rights and benefits at any time accruing and attaching to them, including without limitation the rights to receive all dividends and distributions declared, made or paid on or after the date on which the Offer is made, that is, the date of despatch of the Composite Document.

LETTER FROM THE BOARD

Since the listing of the Company and up to the Latest Practicable Date, the Company has not declared any dividend or distribution which remain unpaid and the Company does not intend to declare any dividend or distribution prior to the close of the Offer.

Independent Shareholders are reminded to read the recommendations of the Independent Board Committee and the advice of the Independent Financial Adviser in respect of the Offer which are included in the Composite Document.

3. Comparison of Value

The offer price of the Offer of HK\$0.79 per Offer Share represents:

- (i) a discount of approximately 15.96% to the closing price per Share of HK\$0.94 on the Stock Exchange as at the Latest Practicable Date;
- (ii) a premium of approximately 5.33% over the closing price of HK\$0.75 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (iii) a premium of approximately 3.67% over the average closing price of approximately HK\$0.762 per Share as quoted on the Stock Exchange for the 5 consecutive trading days immediately prior to and including the Last Trading Day;
- (iv) a premium of approximately 3.95% over the average closing price of approximately HK\$0.76 per Share as quoted on the Stock Exchange for the 10 consecutive trading days immediately prior to and including the Last Trading Day;
- (v) a premium of approximately 6.04% over the average closing price of approximately HK\$0.745 per Share as quoted on the Stock Exchange for the 30 consecutive trading days immediately prior to and including the Last Trading Day;
- (vi) a premium of approximately 154.84% over the audited consolidated net asset value attributable to the Shareholders of approximately HK\$0.31 per Share as at 31 December 2021 (being the date to which the latest audited consolidated annual results of the Group were made up), calculated by dividing the Group's audited consolidated net assets attributable to the Shareholders of approximately RMB334,706,000 (equivalent to approximately HK\$391,606,000) as at 31 December 2021 by 1,260,000,000 Shares in issue as at the Latest Practicable Date; and
- (vii) a premium of approximately 150.79% over the unaudited consolidated net asset value attributable to the Shareholders of approximately HK\$0.315 per Share as at 30 June 2022 (being the date to which the latest unaudited consolidated interim results of the Group were made up), calculated based on the Group's unaudited consolidated net assets attributable to the Shareholders of approximately RMB339,726,000 (equivalent to approximately HK\$397,479,420) as at 30 June 2022 and 1,260,000,000 Shares in issue as at the Latest Practicable Date.

LETTER FROM THE BOARD

Highest and lowest Share prices

During the Relevant Period, (i) the highest closing price of the Shares quoted on the Stock Exchange was HK\$1.39 per Share on 15 July 2022; and (ii) the lowest closing price of the Shares quoted on the Stock Exchange was HK\$0.395 per Share on 15 March 2022.

Value of the Offer

As at the Latest Practicable Date, 1,260,000,000 Shares were in issue and the Company did not have any outstanding options, warrants or derivatives or other securities which are convertible or exchangeable into the Shares and has not entered into any agreement for the issue of such kinds of securities.

As the Offeror and parties acting in concert held in aggregate 884,905,000 Shares immediately after Completion, 375,095,000 Shares are subject to the Offer. Based on the offer price of HK\$0.79 per Offer Share, the value of the Offer is HK\$296,325,050.

Financial resources available for the Offer

The maximum amount of cash payable by the Offeror in respect of full acceptance of the Offer is HK\$196,785,050, assuming full acceptance of the Offer (excluding the Remaining Shares held by the Vendor which are subject to the Irrevocable Undertaking) and there is no change in the issued share capital of the Company from the Latest Practicable Date up to the close of the Offer. The Offeror intends to finance the consideration payable under the Offer with its internal resources.

Dakin Capital, as the financial adviser to the Offeror in respect of the Acquisition and the Offer, is satisfied that sufficient financial resources are, and will remain, available to the Offeror to satisfy the consideration for full acceptance of the Offer.

4. Information on the Offeror and the Group

(1) Information on the Offeror

Your attention is drawn to the paragraph headed “4. Information on the parties” in the “Letter from Dakin Capital Limited” and Appendix IV “General Information of the Offeror” to the Composite Document.

LETTER FROM THE BOARD

(2) *Information on the Group*

The Company is an investment holding company. The Group is principally engaged in (i) manufacturing and sales of lace; and (ii) provision of dyeing services.

Set out below is a summary of the audited financial information of the Group for each of the two financial years ended 31 December 2020 and 2021 as extracted from the annual financial statements prepared in accordance with Hong Kong Financial Reporting Standards disclosed in the Company's annual report for the years ended 31 December 2020 and 31 December 2021:

	For the year ended 31 December	
	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(audited)	(audited)
Revenue	198,478	165,942
Profit before tax	52,593	24,080
Profit for the year	43,821	21,182
	As at 31 December	
	2020	2021
Equity attributable to owners of the Company	222,951	334,706

Further details of the Group are set out in Appendix II "Financial Information of the Group" and Appendix III "General Information of the Group" to the Composite Document.

LETTER FROM THE BOARD

(3) Shareholding in the Company

Set out below is the shareholding structure of the Company (i) immediately prior to Completion; and (ii) immediately after Completion and as at the Latest Practicable Date:

	Immediately before Completion		Immediately after Completion and as at the Latest Practicable Date	
	Number of Shares	Approximate %	Number of Shares	Approximate %
The Offeror and parties acting in concert with it				
The Offeror				
(Notes 1 and 2)	94,500,000	7.50	819,000,000	65.00
Mr. Tsoi (Notes 1 and 2)	25,000,000	1.98	25,000,000	1.98
Close relatives of Mr. Tsoi				
(Notes 1 and 3)	40,905,000	3.25	40,905,000	3.25
Sub-total	160,405,000	12.73	884,905,000	70.23
The Vendor (Note 4)	850,500,000	67.50	126,000,000	10.00
Independent Shareholders	249,095,000	19.77	249,095,000	19.77
Total	1,260,000,000	100.00	1,260,000,000	100.00

Notes:

- The entire issued share capital of the Offeror is owned by Mr. Tsoi, who is also the sole director of the Offeror. Pursuant to class (2) of the definition of the “acting in concert” under the Takeovers Code, a company with any directors (together with their close relatives, related trusts and companies controlled by such directors, close relatives and related trusts) of the company or of its parent are presumed to be acting in concert with others in the same class unless the contrary is established.

Given Mr. Tsoi is the sole director of the Offeror, thus Mr. Tsoi together with his close relatives are presumed to be parties acting in concert with the Offeror under this class.

- Immediately before Completion, Mr. Tsoi (i) directly and beneficially holds 1.98% of the shares of the Company; and (ii) beneficially owns 100% of the issued shares of the Offeror, which in turn holds 7.50% of the shares of the Company. Mr. Tsoi is the sole director of the Offeror.
- The close relatives of Mr. Tsoi are interested in 40,905,000 Shares in aggregate as at the Latest Practicable Date, in which (i) Ms. Tsoi Wing Yuet Willy (蔡榮月), being the younger sister of Mr. Tsoi, hold 15,230,000 Shares; (ii) Mr. Cai Rongshou (蔡榮壽), being the elder brother of Mr. Tsoi, hold 2,230,000 Shares; (iii) Ms. Lin Shaoling (林少玲), being the sister-in law of Mr. Tsoi, hold 9,800,000 Shares; (iv) Mr. Tsoi Wing Ying (蔡榮映), being the younger brother of Mr. Tsoi, hold 2,095,000 Shares; (v) Ms. Yeung Po Yuk (楊寶玉), being the sister-in law of Mr. Tsoi, hold 7,230,000 Shares; (vi) Mr. Cai Rongcheng (蔡榮澄), being the younger brother of Mr. Tsoi, hold 2,085,000 Shares; (vii) Ms. Zheng Zhixin (鄭哲欣), being the sister-in law of Mr. Tsoi, hold 1,900,000 Shares; (viii) Ms. Tsoi Lam Ki (蔡琳琪), being the daughter of Mr. Tsoi, hold 210,000 Shares; and (ix) Ms. Tsoi Sui Ki (蔡瑞琪), being the daughter of Mr. Tsoi, hold 90,000 Shares; and (x) Mr. Tsoi Pok Yeung (蔡博揚), being the son of Mr. Tsoi, hold 35,000 Shares in the Company.

LETTER FROM THE BOARD

4. The Vendor is owned as to 60% by Mr. Lin Minqiang, 11.6% by Mr. Lin Bingzhong, 10.54% by Mr. Lin Chaoji, 9.22% by Mr. Lin Chaowei and 8.64% by Mr. Lin Chaowen. Mr. Lin Minqiang is the chairman of the Board and executive Director of the Company. Mr. Lin Bingzhong, Mr. Lin Chaowei and Mr. Lin Chaowen are the executive Directors of the Company.

5. Intentions of the Offeror in relation to the Group

As at the Latest Practicable Date, the Offeror intends to continue the existing principal business of the Group substantially in the current state following Completion and the close of the Offer, and will maintain the listing status of the Company. The Offeror has no intention to introduce major changes in the business of the Group or to dispose of or re-deploy the fixed assets of the Group other than in the ordinary course of business. As at the Latest Practicable Date, the Offeror has no intention, understanding negotiation or arrangement (concluded or otherwise) has to downsize, cease or dispose of any of the existing businesses of the Group.

The Offeror intends to nominate Mr. Tsoi as the new executive Director of the Company and continue the employment of the existing management and employees of the Group. The Offeror also intends to review the business activities, operations and financial position of the Group to formulate business plans and strategies for the future business development of the Group. Depending on the results of the review, the Offeror may explore other related businesses opportunities for the Group and/or seek to expand the geographical coverage of the existing principal business of the Group. The Board is of the view that the Offeror's intentions in respect of the Group could provide long-term benefits to the business development of the Group and its employees. As at the Latest Practicable Date, no investment or business opportunity has been identified, nor has the Offeror entered into any agreement, arrangement, understandings or negotiation in relation to the injection of any assets or business into the Group.

Proposed change of Board composition of the Company

As at the Latest Practicable Date, the Board consists of ten Directors, comprising six executive Directors, namely Mr. Lin Minqiang, Mr. Lin Chaowei, Mr. Lin Chaowen, Mr. Lin Bingzhong, Mr. Wei Cunzhuo and Ms. Lin Lili; and four independent non-executive Directors, namely, Mr. Sheng Zijiu, Mr. Chow Kit Ting, Mr. Yip Koon Shing and Mr. Wong Chun Sek Edmund. The Offeror intends to nominate Mr. Tsoi as the new executive Director of the Company. The Company intends to appoint Mr. Tsoi as the new executive Director and the proposed appointment is expected to take effect after the despatch of this Composite Document. The biographical details of Mr. Tsoi are set out in the paragraph headed "4. Information on the parties – 4.1 The Offeror" in the "Letter from Dakin Capital Limited" in this Composite Document. Save as disclosed above, as at the Latest Practicable Date, the Offeror has not reached any final decision as to the identities of the other new Director(s) which will be nominated and the existing Director(s) which will resign. For details, please refer to the paragraph headed "5. Intentions of the Offeror regarding the Group" in the "Letter from Dakin Capital Limited" in this Composite Document.

Any changes to the members of the Board will be made in compliance with the Takeovers Code and/or the Listing Rules and further announcement(s) will be made as and when appropriate.

LETTER FROM THE BOARD

Public float and maintaining the listing status of the Company

The Stock Exchange has stated that if, at the close of the Offer, less than the minimum prescribed percentage applicable to the Company, being 25% of the total number of issued Shares, are held by the public at all times, or if the Stock Exchange believes that

- a false market exists or may exist in the trading of the Shares; or
- 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.

Therefore, it should be noted that upon the close of the Offer, there may be insufficient public float of the Shares and the trading in the Shares may be suspended until sufficient public float exists for the Shares.

The Offeror intends that the Company will remain listed on the Stock Exchange after the close of the Offer. The Offeror does not intend to avail itself of any powers of compulsory acquisition of any outstanding Offer Shares after the close of the Offer. The sole director of the Offeror and the new directors to be appointed to the Board of the Company will jointly and severally undertake to the Stock Exchange to take appropriate steps to ensure that sufficient public float (i.e. not less than 25% of the entire issued share capital of the Company) exists in the Shares at all times.

Immediately after the Completion and as at the Latest Practicable Date, the Offeror, Mr. Tsoi and the Vendor held a total of 970,000,000 Shares, representing approximately 76.98% of the total issued share capital of the Company as at the Latest Practicable Date. Accordingly, as at the Latest Practicable Date, the Company cannot fulfill the minimum public float requirement set out under Rule 8.08(1)(a) of the Listing Rules. As such, the Company has made an application to the Stock Exchange for a temporary waiver from strict compliance with Rule 8.08(1)(a) of the Listing Rules (the “**Waiver**”) for a period of two months after the close of the Offer. As disclosed in the announcement of the Company dated 7 July 2022 regarding the Waiver, on 5 July 2022, the Company was granted the Waiver by the Stock Exchange for the period from 17 June 2022 to 30 September 2022. The Offeror will take appropriate steps to restore the required minimum public float after the close of the Offer as early as practicable. As disclosed above, the Offeror intends that the Company will remain listed on the Stock Exchange after the close of the Offer. The Offeror proposed to place down certain number of Shares held by it to independent third party investors (the “**Placing**”) after the close of the Offer for the purpose of restoring the Company’s minimum public float to at least 25% in compliance with the Listing Rules. As at the Latest Practicable Date, the Offeror is identifying a placing agent for the Placing, to the extent allowed under the Takeovers Code and the Placing will commence after the Closing Date of the Offer. Further announcement(s) will be made by the Company regarding the restoration of public float as and when appropriate.

LETTER FROM THE BOARD

6. Independent Board Committee and Independent Financial Adviser

Pursuant to Rule 2.1 of the Takeovers Code, the Independent Board Committee, comprising all the independent non-executive Directors who have no direct or indirect interest in the Offer, namely Mr. Sheng Zijiu, Mr. Chow Kit Ting, Mr. Yip Koon Shing and Mr. Wong Chun Sek Edmund, has been established to advise and recommend the Independent Shareholders as to whether the terms of the Offer are fair and reasonable and as to the acceptance of the Offer.

Octal Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Offer and, in particular, as to whether the terms of the Offer are fair and reasonable and as to the acceptance of the Offer. The appointment of the Independent Financial Adviser has been approved by the Independent Board Committee pursuant to Rule 2.1 of the Takeovers Code.

For the opinions and advice of the Independent Financial Adviser, please refer to section headed “Letter from the Independent Financial Adviser” in this Composite Document.

7. Taxation

Hong Kong stamp duty

Seller’s Hong Kong ad valorem stamp duty on acceptances of the Offer at a rate of 0.13% of the consideration payable in respect of the relevant acceptances or, if higher, the market value of the Offer Shares subject to such acceptance, will be deducted from the amount payable to the Independent Shareholders who accept the Offer. The Offeror will arrange for payment of the sellers’ ad valorem stamp duty on behalf of the Independent Shareholders who accept the Offer and pay the buyer’s Hong Kong ad valorem stamp duty in connection with the acceptance of the Offer and the transfer of the relevant Offer Shares in accordance with the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong).

Taxation advice

The Independent Shareholders are recommended to consult their own professional advisers if they are in any doubt as to the taxation implications of accepting or rejecting the Offer. None of the Offeror, parties acting in concert with the Offeror, the Company, the Vendor, the Guarantor, the Independent Financial Adviser, Dakin Securities Limited, Dakin Capital Limited and their respective ultimate beneficial owners, directors, advisers, agents or associates or any other person involved in the Offer accepts responsibility for any taxation effects on, or liabilities of, any persons as a result of their acceptance or rejection of the Offer.

LETTER FROM THE BOARD

8. Recommendation

Your attention is drawn to (i) the “Letter from the Independent Board Committee as set out on pages 25 to 26 of this Composite Document which contains its recommendation to the Independent Shareholders as to whether the Offer is, or is not, fair and reasonable and as to acceptance of the Offer; and (ii) the “Letter from the Independent Financial Adviser” set out on pages 27 to 53 of the Composite Document which contains its advice to the Independent Board Committee in connection with the Offer and the principal factors considered by it in arriving at its advice.

9. Additional Information

Your attention is drawn to the additional information contained in the appendices to the Composite Document. Further details on the terms and the procedures for acceptance of the Offer are set out in Appendix I “Further Terms and Procedures of Acceptance of the Offer” to this Composite Document and the accompanying Form of Acceptance. You are also recommended to read carefully the Form of Acceptance for further details in respect of the procedures for acceptance of the Offer.

Yours faithfully,
For and on behalf of the Board of
Deyun Holding Ltd.
Lin Minqiang
Chairman and executive Director

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Set out below is the text of the letter of recommendation from the Independent Board Committee in respect of the Offer which has been prepared for the purpose of inclusion in this Composite Document.

Deyun Holding Ltd.

德運控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1440)

12 August 2022

To the Independent Shareholders

Dear Sirs,

**MANDATORY UNCONDITIONAL CASH OFFER BY
DAKIN SECURITIES LIMITED
FOR AND ON BEHALF OF
GLORIOUS WAY INVESTMENTS LIMITED
TO ACQUIRE ALL THE ISSUED SHARES OF
DEYUN HOLDING LTD.
(OTHER THAN THOSE ALREADY OWNED OR
AGREED TO BE ACQUIRED BY GLORIOUS WAY INVESTMENTS LIMITED
AND
PARTIES ACTING IN CONCERT WITH IT)**

INTRODUCTION

We refer to the composite offer and response document (the “Composite Document”) dated 12 August 2022 jointly issued by the Company and the Offeror, of which this letter forms part. Terms used herein shall have the same meanings as defined in the Composite Document unless the context requires otherwise.

We have been appointed to form the Independent Board Committee to consider the terms of the Offer and to advise you (i.e. the Independent Shareholders) as to, in our opinion, whether or not the terms of the Offer are fair and reasonable so far as the Independent Shareholders are concerned and to make recommendation as to acceptance of the Offer after taking into account the advice from the Independent Financial Adviser.

Octal Capital has been appointed with our approval as the Independent Financial Adviser to advise us in respect of the terms of the Offer and as to acceptance thereof. Details of its advice and recommendation, together with the principal factors and reasons which it has considered before arriving at such recommendation, are set out in the “Letter from the Independent Financial Adviser” in the Composite Document.

* For identification purpose only

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

We also wish to draw your attention to the section headed “Letter from Dakin Capital Limited”, the “Letter from the Board” and the additional information set out in the Composite Document, including the appendices to the Composite Document and the accompanying Form of Acceptance in respect of the terms of the Offer and the acceptance and settlement procedures for the Offer.

We, being the members of the Independent Board Committee, have declared that, we are independent and do not have any conflict of interest in respect of the Offer and are therefore able to consider the terms of the Offer and to make recommendations to the Independent Shareholders.

RECOMMENDATIONS

Having taken into account the terms of the Offer, together with the advice and recommendations from Octal Capital, we consider that the terms of the Offer, including the Offer Price, are fair and reasonable so far as the Independent Shareholders are concerned.

Having mentioned in the paragraph headed “Historical price performance of the Shares” in the Letter from the Independent Financial Adviser, the price of the Shares has been traded higher than the Offer Price from 27 June 2022 to the Latest Practicable Date. As such, Independent Financial Adviser recommend us to advise the Independent Shareholders who wish to dispose all or part of their shareholding, are reminded that they should closely monitor the market price and liquidity of the Shares during the Offer Period, to dispose of their Shares in the market should there be sufficient liquidity of the Shares and the net proceeds obtained from such disposal of the Shares (after deducting all transaction costs) would be higher than the net proceeds from accepting the Offer, and those who are unable to do so during the Offer Period should accept the Offer.

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

Notwithstanding our recommendation, the Independent Shareholders are strongly advised that the decision to realise or to hold their investment is subject to individual circumstances and investment objectives. If in doubt, the Independent Shareholders should consult their own professional advisers for advice. Furthermore, the Independent Shareholders who wish to accept the Offer are recommended to read carefully the terms and procedures for acceptance of the Offer as detailed in this Composite Document and the accompanying Form of Acceptance.

The Independent Shareholders are recommended to read the full text of the section headed “Letter from the Independent Financial Adviser” set out in the Composite Document.

Yours faithfully,
For and on behalf of
the Independent Board Committee of
Deyun Holding Ltd.

Mr. Sheng Zijiu
Independent
non-executive Director

Mr. Chow Kit Ting
Independent
non-executive Director

Mr. Yip Koon Shing
Independent
non-executive Director

Mr. Wong Chun Sek
Edmund
Independent
non-executive Director

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the text of the letter of advice dated 12 August 2022 from Octal Capital Limited to the Independent Board Committee and the Independent Shareholders regarding the Offer for the purpose of inclusion in this Composite Document.



Octal Capital Limited
801-805, 8/F, Nan Fung Tower
88 Connaught Road Central
Hong Kong

To the Independent Board Committee and the Independent Shareholders

12 August 2022

Dear Sirs,

**MANDATORY UNCONDITIONAL CASH OFFER BY
DAKIN SECURITIES LIMITED
FOR AND ON BEHALF OF
GLORIOUS WAY INVESTMENTS LIMITED
TO ACQUIRE ALL THE ISSUED SHARES OF
DEYUN HOLDING LTD.
(OTHER THAN THOSE ALREADY OWNED
OR AGREED TO BE ACQUIRED BY
GLORIOUS WAY INVESTMENTS LIMITED AND
PARTIES ACTING IN CONCERT WITH IT)**

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Offer, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the composite document of the Company dated 12 August 2022 (the “**Composite Document**”). Unless the context otherwise requires, terms used in this letter shall have the same meanings as those defined in the Composite Document.

Reference is made to the Joint Announcement, the Vendor, the Guarantor and the Offeror entered into the Sale and Purchase Agreement on 17 June 2022, pursuant to which the Vendor agreed to sell and the Offeror agreed to purchase the Sale Shares, being 724,500,000 Shares, representing approximately 57.50% of the total issued share capital of the Company as at the Latest Practicable Date. The Consideration for the Sale Shares was HK\$175,000,000 (equivalent to HK\$0.242 per Sale Share). Completion took place immediately upon the signing of the Sale and Purchase Agreement on the Completion Date, being 17 June 2022.

Immediately prior to Completion, the Offeror and parties acting in concert with it were interested in an aggregate of 160,405,000 Shares, representing approximately 12.73% of the total issued share capital of the Company as at the Latest Practicable Date. Immediately following Completion and as at the Latest Practicable Date, the Offeror and parties acting in concert with it are interested in an aggregate of 884,905,000 Shares, representing approximately 70.23% of the total issued share capital of the Company.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Upon Completion, the Offeror is therefore required under Rule 26.1 of the Takeovers Code to make an Offer for all the issued Shares (other than those already owned or agreed to be acquired by the Offeror and parties acting in concert with it).

Pursuant to Rule 2.1 of the Takeovers Code, the Independent Board Committee comprising all the independent non executive Directors who have no direct or indirect interest in the Offer, namely Mr. Sheng Zijiu, Mr. Chow Kit Ting, Mr. Yip Koon Shing and Mr. Wong Chun Sek Edmund, has been established to advise and recommend the Independent Shareholders as to whether the terms of the Offer are fair and reasonable and whether the Offer is in the interests of the Independent Shareholders as a whole and as to the acceptance of the Offer.

We, Octal Capital Limited, have been appointed as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Offer and in particular as to whether the Offer are fair and reasonable and as to the acceptance of the Offer. Our appointment has been approved by the Independent Board Committee pursuant to Rule 2.1 of the Takeovers Code.

During the last two years, there was no engagement between the Company or the Offeror and us. Apart from normal professional fees paid or payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Offeror or the Company or any party acting, or presumed to be acting, in concert with any of them. Therefore, we are considered eligible to give independent advice on the Offer under the requirement of the Listing Rules. As at the Latest Practicable Date, we are not in the same group as the financial or other professional advisers (including a stockbroker) to the Company, and we are not associated with the Offeror or the Company or any party acting, or presumed to be acting in concert with any of them and we had not had any connection, financial assistance or otherwise, with either the Offeror or the Company or the controlling shareholder(s) of either of them, and we are therefore considered independent and suitable to give independent advice to the Independent Board Committee and the Independent Shareholders pursuant to Rule 2.6 of the Takeovers Code.

In formulating our opinion, we have relied on the information and facts supplied by the Company, and the opinions expressed by the Directors, and have assumed that the information and facts provided and opinions expressed by the Directors to us are true, accurate and complete in all material aspects. We have also relied on our discussion with the Board and/or the management of the Company, given in writing or orally, regarding the Company and the Offer, including the information and representations contained in the Composite Document. We have also assumed that all statements of belief, opinion and intention made by the Board and the management of the Company in the Composite Document were reasonably made after due enquiry. We consider that the information we have received is sufficient for us to reach our opinion and give the advice and recommendation set out in this letter. We have no reason to believe that any material information has been omitted or withheld, or doubt the truth or accuracy of the information provided. We have, however, not conducted any independent investigation into the business and affairs of the Group or any of their respective associates or any party acting, or presumed to be acting, in concert with any of them, nor have we carried out any independent verification of the information supplied. We have also assumed that all representations contained or referred to in the Composite Document were true, accurate and complete in all material respects and not misleading or deceptive up to the time of the Latest Practicable Date, and there are no other matters the omission of which would make any statement herein or the Composite Document misleading.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Should there be any subsequent material changes which occur during the period from the date of the Composite Document up to the close of the Offer, we will notify the Independent Board Committee and the Independent Shareholders as soon as possible.

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

PRINCIPAL FACTORS TAKEN INTO CONSIDERATION ON THE OFFER

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

1. Background of the Offer

As at the Latest Practicable Date, 1,260,000,000 Shares were in issue and the Company did not have any outstanding options, warrants or derivatives or other securities which are convertible or exchangeable into the Shares and has not entered into any agreement for the issue of such kinds of securities.

Dakin Securities Limited is making the Offer, for and on behalf of the Offeror and in compliance with the Takeovers Code, on the terms set out in the Composite Document issued in accordance with the Takeovers Code on the following basis:

For each Offer Share HK\$0.79 in cash

The Offer Price of HK\$0.79 per Offer Share represents the highest price per Share paid by the Offeror and parties acting in concert with it during the six-month period immediately preceding the commencement of the Offer Period. The Offer is extended to all Shareholders other than the Offeror and parties acting in concert with it in accordance with the Takeovers Code. The Vendor has irrevocably undertaken not to accept the Offer in respect of the Remaining Shares. The Offer Shares to be acquired under the Offer shall be fully paid and acquired free from all encumbrances, and together with all rights and benefits attached thereto, including all rights to any dividend or other distribution declared, made or paid on or after the date on which the Offer is made, being the date of dispatch of the Composite Document.

The Offer is unconditional in all respects and is not conditional upon acceptances being received in respect of a minimum number of the Shares or any other conditions.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

2. Background of the Group

The Company was incorporated in the Cayman Islands with limited liability and its issued Shares have been listed on the Main Board since 13 January 2021. The Company is an investment holding company and the Group is principally engaged in (i) manufacturing and sales of lace; (ii) provision of dyeing services; and (iii) sales of shoes. For the lace business, the Group offers a wide portfolio of lace design for its customers, which are primarily garment and home textile product manufacturers, to choose or tailor-made its lace products according to their specifications. For dyeing services, the customers are mainly lace and swim wear manufacturers who would provide the Group with their own lace and swimwear fabrics for the Group to dye before further fabrication. For the sales of shoes business, the customers are mainly the wholesale customers in Hong Kong. The Group focuses in the PRC markets whereas approximately 99.1% and 89.5% of sales were generated in the PRC for FY2020 and FY2021 respectively.

3. Historical financial performance and prospects of the Group

Financial information of the Group

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

	FY2019	FY2020	FY2021	1H2021	1H2022
	(audited)	(audited)	(audited)	(unaudited)	(unaudited)
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
– Provision of dyeing services	117,937	121,803	94,244	52,938	30,355
– Manufacturing of lace	85,506	76,675	56,161	30,121	13,167
– Sales of shoes	–	–	15,537	–	36,864
Total revenue	203,443	198,478	165,942	83,059	80,386
Gross profit	66,904	73,857	39,194	27,050	4,306
Gross profit margin	32.9%	37.2%	23.6%	32.6%	5.4%
Profit for the year attributable to owners of the Company	41,851	43,821	21,182	19,892	4,897
Net profit margin	20.6%	22.1%	12.8%	23.9%	6.1%

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

1H2022 as compared to 1H2021

The Group recorded total revenue of approximately RMB80.4 million for 1H2022, representing a decrease of approximately RMB2.7 million or 3.2% as compared to that for 1H2021. According to the 2022 Interim Results Announcement, such decrease in revenue was mainly due to the significant decrease in revenue of dyeing services and lace manufacturing as a result of the disruption to the supply chain and business activities of the Group in the PRC, caused by the lockdown measures in response to the outbreak of COVID-19, but partially offset by the contribution from the Group's sales of shoes business in Hong Kong. As the Group's sales of shoes business commenced in August 2021, the Group recorded nil revenue from the sales of shoes business for 1H2021 and the revenue from the sales of shoes business for FY2021 of approximately RMB15.5 million reflected its revenue recognised during second half of 2021. The increase of revenue from the sales of shoes business for 1H2022 when compared with the second half of 2021 was as a result of the full operation of the sales of shoes business in 1H2022 since the commencement of the business in August 2021.

The Group recorded gross profit of approximately RMB4.3 million for 1H2022, representing a decrease of approximately RMB22.7 million or 84.1% as compared to that for 1H2021. The gross profit margin of the Group decreased from approximately 32.6% for 1H2021 to approximately 5.4% for 1H2022. The revenue of the Group's dyeing services and lace manufacturing substantially decreased for 1H2022, while the manufacturing overhead and labour cost, being the major components of the cost of sales, were relatively less variable to the revenue and did not decrease in proportionally to the decrease in the revenue. In this connection, the gross profit margin of the Group's dyeing services and lace manufacturing decreased from approximately 30.2% and 36.8% for 1H2021 to approximately 1.2% and 6.9% for 1H2022 respectively. The Group's sales of shoes segment contributed gross profit of approximately RMB3.0 million for 1H 2022, being the Group's new segment commenced in August 2021. The above factors result in the decrease in the gross profit of the Group for 1H2022. The profit for the year attributable to owners of the Company for 1H2022 was approximately RMB4.9 million, representing a decrease of approximately RMB15.0 million or approximately 75.4% as compared to that for 1H2021. Such decrease in the profit for the year attributable to owners of the Company was mainly due to (i) the significant decrease in gross profit as mentioned above; and (ii) the increase in administrative expenses of approximately RMB2.1 million, partially offset by the increase in other income and other gains of approximately RMB3.5 million and RMB2.0 million respectively.

FY2021 as compared to FY2020

The Group recorded total revenue of approximately RMB165.9 million for FY2021, representing a decrease of approximately RMB32.5 million or 16.4% as compared to that for FY2020. According to the 2021 Annual Report, such decrease in revenue was mainly due to (i) an outbreak of COVID-19 in Guangdong Province in May 2021 caused interruptions to business activities of some of the Group's Guangdong-based customers, which in turn negatively affected the revenue performance of the Group for 1H2021; (ii) two dyeing factories of other manufacturers in Fujian had fire incidents which raised the concerns of the relevant government authorities on fire safety as such the Group's dyeing factories in Fujian were ordered to halt operations for

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

approximately three weeks and enhance their fire protection measures during FY2021; and (iii) factories in the PRC were required under the power-cut policy of the PRC government to reduce their electricity usage in order to meet the environmental targets. The Group recorded revenue of approximately RMB15.5 million from sales of shoes for FY2021 while the Group recorded nil revenue for FY2020, as the Group commenced the sales of shoes business since August 2021.

The gross profit of the Group decreased by approximately RMB34.7 million or 46.9%, from approximately RMB73.9 million for FY2020 to approximately RMB39.2 million for FY2021 as a result of the decrease in revenue of dyeing services and lace products and the increase in cost of raw materials and other production costs. The gross profit margin of the Group decreased from approximately 37.2% for FY2020 to approximately 23.6% for FY2021, mainly attributable to the rising cost of raw materials and other production costs during FY2021. As a result of the foregoing, the profit for the year attributable to owners of the Company for FY2021 was approximately RMB21.2 million, representing a decrease of approximately RMB22.6 million or approximately 51.7% as compared to that for FY2020.

FY2020 as compared to FY2019

The total revenue of the Group for FY2020 decreased by approximately RMB5.0 million or 2.4% as compared to that for FY2019. Such decrease in revenue was mainly due to the decrease in revenue of lace of approximately RMB8.8 million or 10.3% for FY2020 as compared to that for FY2019 as a result of the outbreak of COVID-19 in January 2020 which negatively impacted the demand for the Group's lace products during that period, partially offset by the increase in the revenue from the provision of dyeing services of approximately RMB3.9 million or 3.3% for FY2020 as compared to that for FY2019 as a result of the increase in average price of dyeing services while the sales volume remained stable. The gross profit of the Group increased by approximately RMB7.0 million or 10.4%, from approximately RMB66.9 million for FY2019 to approximately RMB73.9 million for FY2020 as a result of the decrease in purchase cost of raw materials. The profit for the year attributable to owners of the Company for FY2020 was approximately RMB43.8 million, representing an increase of approximately RMB2.0 million or approximately 4.7% as compared to that for FY2019.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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

	As at 31 December 2021 (audited) <i>RMB'000</i>	As at 30 June 2022 (unaudited) <i>RMB'000</i>
Properties, plant and equipment	147,476	147,431
Other non-current assets	11,991	4,322
Non-current Assets	159,467	151,753
Inventories	9,737	11,257
Trade and bills receivable	18,774	16,051
Cash and cash equivalents	182,294	195,512
Other current assets	9,943	7,058
Current Assets	220,748	229,878
Total Assets	380,215	381,631
Non-current Liabilities	2,013	1,970
Trade payables	20,221	17,104
Other payables and accruals	17,242	17,041
Other current liabilities	6,033	5,790
Current Liabilities	43,496	39,935
Total Liabilities	45,509	41,905
Net Current Assets	177,252	189,943
Net Assets	334,706	339,726

As at 30 June 2022, the total assets of the Group mainly comprise of properties, plant and equipment and cash and cash equivalents and in aggregate amounted to approximately RMB342.9 million, which represented approximately 89.9% of the total assets. The total liabilities of the Group mainly comprise of trade payables and other payables and accruals and in aggregate amounted to approximately RMB34.1 million, which represented approximately 81.5% of the total liabilities. As a result, the Group recorded net assets of approximately RMB339.7 million as at 30 June 2022.

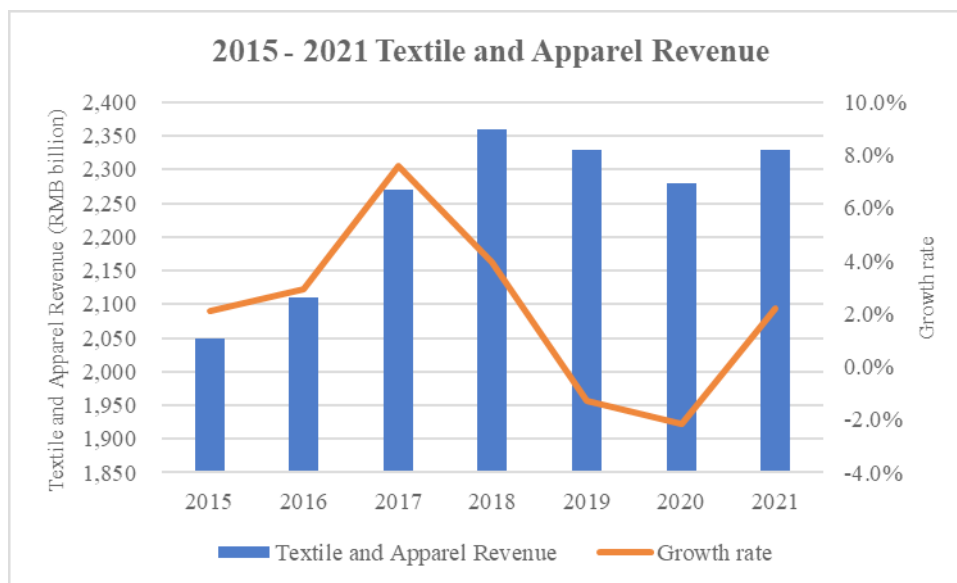
As at 31 December 2021, the total assets of the Group mainly comprise of properties, plant and equipment and cash and cash equivalents and in aggregate amounted to approximately RMB329.8 million, which represented approximately 86.7% of the total assets. The total liabilities of the Group mainly comprise of trade payables and other payables and accruals and in aggregate amounted to approximately RMB37.5 million, which represented approximately 82.3% of the total liabilities. As a result, the Group recorded net assets of approximately RMB334.7 million as at 31 December 2021.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Prospects of the Group

The Group is principally engaged in manufacturing and sales of lace and provision of dyeing services. According to the prospectus of the Company, the Company ranked the sixth among all lace manufacturers in the PRC, accounting for a market share of 0.3% and ranked the fourth in the lace dyeing industry in the PRC, accounting for a market share of 1.3% respectively, in terms of revenue in 2019. The Group's products were mainly used for manufacturing of domestic brand lingerie ultimately consumed domestically, which are reliant on the level of local textile industry and market activities undertaken by its customers which is driven by market sentiment.

According to National Bureau of Statistics, the PRC's GDP growth rate was 6.9% in 2017 and decreased to 6.7% in 2018 and 6.0% in 2019. The PRC's GDP growth rate further dropped to 2.2% in 2020 as a result of the COVID-19 pandemic and rebounded to 8.1% in 2021 resulted from the effective anti-epidemic measures by the PRC government. Meanwhile, the PRC's garment industry remained relatively stable during the past years. On 9 March 2022, China National Garment Association published the Analysis of the Operation of the Textile and Apparel Professional Market in 2021* (2021年紡織服裝專業市場營運分析) (the “**Analysis**”). According to the Analysis, with the rapid development of information technology, the rapid popularisation of new e-commerce platforms and personalised consumption methods have gradually become the mainstream of consumption. Set out below is the diagram showing the actual sales revenue of textile and apparel professional market in the PRC (the “**Textile and Apparel Revenue**”) and its growth rate from 2015 to 2021:



Source: China National Garment Association (www.cnga.org.cn)

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

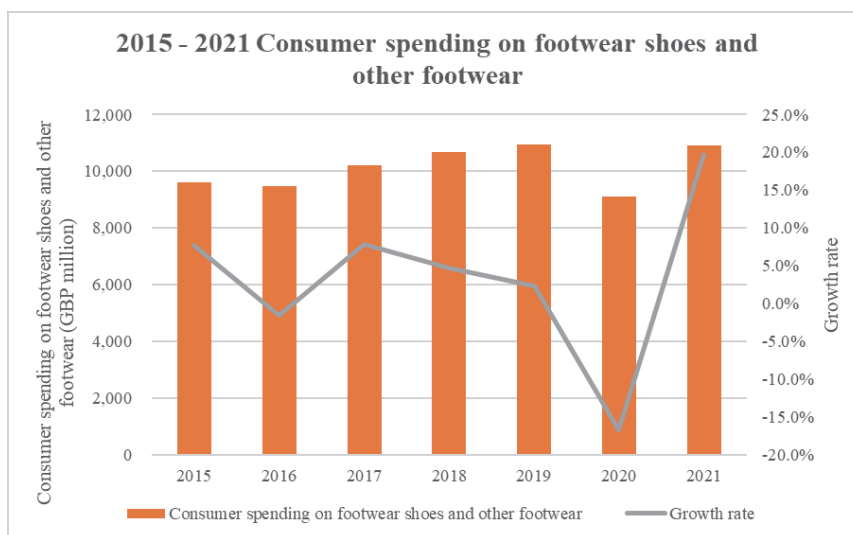
As shown in the chart above, the Textile and Apparel Revenue demonstrated a moderate growth in the past decade and increased from approximately RMB2,050 billion in 2015 to approximately RMB2,330 billion in 2021, representing a compound annual growth rate of approximately 2.16%. However, the year-on-year growth rates of the Textile and Apparel Revenue were decelerating since 2018 and turned from positive to negative in 2019. The Textile and Apparel Revenue rebounded from approximately RMB2,280 billion in 2020 to approximately RMB2,330 billion in 2021.

As discussed in the paragraph headed “Financial information of the Group” in this letter, the financial performance of the Group was deteriorating during the past three years. The profit for the year attributable to owners of the Company decreased from approximately RMB41.9 million in FY2019 to RMB21.2 million in FY2021, mainly attributable to the outbreak of COVID-19 which caused interruptions to business activities of some of the Group’s customers. In 1H2022, due to the spread of Omicron variant of COVID-19, the PRC government has implemented strict preventive and control measures, including citywide lockdowns and restrictions on entry and exit to prevent the spread of the virus. Certain regional outbreaks negatively affected the supply chain in the PRC. The profit for the period attributable to owners of the Company decreased significantly from approximately RMB19.9 million in 1H2021 to RMB4.9 million in 1H2022. As the COVID-19 pandemic is evolving, uncertainties surrounding COVID-19 still remain, including the spread of existing and any new variants of COVID-19 and the effectiveness of vaccine programs against existing and any new variants of COVID-19.

Apart from the core business segments of the Group, being the manufacturing of lace and provision of dyeing services, the Group commenced the sales of shoes business in Hong Kong in August 2021. As disclosed in the section headed “Financial information of the Group” in this letter, the Group recorded segment revenue from the sales of shoes business for FY2021 and 1H2022 of approximately RMB15.5 million and RMB36.9 million respectively, accounting for approximately 9.4% and 45.9% of the total revenue during the corresponding period respectively. Its gross profit margins for FY2021 and 1H2022 were approximately 10.5% and 8.2% respectively. On the other hand, save for the non-recurring low gross profit margins of the manufacturing of lace and provision of dyeing services during 1H2022 of approximately 6.9% and 1.2% respectively due to the disruption in supply chain and business activities of the Group in the PRC caused by the lockdown measures in response to the outbreak of COVID-19, the gross profit margins of the manufacturing of lace and provision of dyeing services ranged from approximately 33.1% to 43.8% and approximately 20.2% to 33.1% for the past three years. Upon comparison, the gross profit margin of the sales of shoes business was relatively lower than the historical gross profit margin of the manufacturing of lace and provision of dyeing services.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Based on our further discussion with the management of the Group, we understand that the customers of the sales of shoes business are mainly wholesalers in Hong Kong, which export the shoes of the Group to retailers in the United Kingdom. We conducted a research on the footwear retail market in the United Kingdom and set out below is the diagram showing the customer expenditure on footwear shoes and other footwear in the United Kingdom (the “**Footwear Expenditure**”) and its growth rate from 2015 to 2021:



Source: Office for National Statistics (www.ons.gov.uk)

As shown in the diagram above, the Footwear Expenditure demonstrated a moderate growth from 2015 to 2019. The Footwear Expenditure increased from approximately GBP9,615 million in 2015 to approximately GBP10,945 million in 2019. The annual growth rates of the Footwear Expenditure were decelerating since 2017 and further dropped to approximately 16.7% in 2020. The Footwear Expenditure rebounded from approximately GBP9,120 million in 2020 to approximately GBP10,919 million in 2021. The compound annual growth rate of the Footwear Expenditure from 2015 to 2021 was approximately 2.14%. Based on our further discussion with the management of the Group, we understand that the Group expected the sales of shoes business may achieve moderate growth in the near future but the gross profit margin of the sales of shoes business is relatively lower than those of the manufacturing of lace and provision of dyeing services. In addition, its contribution to the Group’s financial performance will be subject to the footwear market in the United Kingdom and the sales strategy of its wholesale customers. As advised by the management of the Company, in consideration of the changing business environment, the Group would continue to monitor the market condition and focus on development of its existing businesses, while their future performance will be dependent on the macroeconomic environment.

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Moreover, the Group's dyeing services business has been categorised as one of the heavily polluting industries. The Group would expose to penalties, fines, suspensions or actions in other forms if the Group fails to comply with environmental regulations. To ensure compliance with the then prevailing and the latest environmental laws and regulations, the Group has devoted effort in enhancing its equipment and facilities for satisfying the increasingly stringent environmental protection requirement. In response to the Discharge Standards of Water Pollutants for Dyeing and Finishing of Textile Industry* (紡織染整工業水污染物排放標準) and the Emission Standard of Air Pollutants for Boiler* (鍋爐大氣污染物排放標準) issued by the National Environmental Protection Agency and the State Bureau of Technical Supervision in 2012 and 2014 respectively, the Group invested approximately RMB5.7 million in aggregate on relevant sewage treatment system and air filtering facilities in 2016. In compliance with the "coal to gas" requirements of the Opinions on Transformation and Upgrading of Printing and Dyeing Industry in Fuzhou* (福州市印染行業轉型升級實施意見) issued by the Department of Industry and Information Technology of Fuzhou City in 2019, the Group invested approximately RMB20.0 million in aggregate on natural gas boilers, air purification equipment and relevant equipment during the period from FY2019 to FY2021, and the Group plans to invest additional approximately RMB10.2 million mainly on acquisition of central heating and relevant equipment, construction of pipeline connection and natural gas boiler plant, and demolition of existing coal boilers, pipeline and relevant equipment by end of 2023. As the environmental laws and regulations in the PRC may be amended from time to time, any changes in those laws and regulations may cause the Group to incur additional costs in order to comply with the more stringent rules in future.

As set out in the Letter from Dakin Capital Limited in the Composite Document, the Offeror intends to continue the existing principal business of the Group substantially in the current state following Completion and the close of the Offer. The Offeror has no intention to introduce major changes in the business of the Group or to dispose of or re-deploy the fixed assets of the Group other than in the ordinary course of business. As at the Latest Practicable Date, the Offeror has no intention, understanding, negotiation or arrangement (concluded or otherwise) to downsize, cease or dispose of any of the existing businesses of the Group. The Offeror intends to nominate Mr. Tsoi as the new executive Director of the Company and continue the employment of the existing management and employees of the Group. The Offeror also intends to review the business activities, operations and financial position of the Group to formulate business plans and strategies for the future business development of the Group. Depending on the results of the review, the Offeror may explore other related businesses opportunities for the Group and/or seek to expand the geographical coverage of the existing principal business of the Group. As at the Latest Practicable Date, the Offeror has no definitive plan and strategy regarding the future development of the Group. As at the Latest Practicable Date, no investment or business opportunity has been identified, nor has the Offeror entered into any agreement, arrangement, understandings or negotiation in relation to the injection of any assets or business into the Group.

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The Offeror intends to nominate Mr. Tsoi as the new executive Director of the Company. The proposed appointment is expected to take effect after the despatch of the Composite Document. As set out in the Letter from Dakin Capital Limited in the Composite Document that Mr. Tsoi holds position in several companies engaging in shoes business, including directorship in Calson Investment Limited (“**Calson Investment**”) and Changzhou Qifa Shoes Co., Ltd.* (常州啟發鞋業有限公司) (“**Changzhou Qifa**”) and supervisor of Putian Qiming Shoes Co., Ltd.* (莆田啟明鞋業有限公司) (“**Putian Qiming**”). According to our search on the National Enterprise Credit Information Publicity System* (國家企業信用信息公示系統), Changzhou Qifa was founded in 2003 with registered capital of USD15 million, while Putian Qiming was founded in 2000 with registered capital of HK\$90 million. Based on the information provided by the Offeror, we understand that Mr. Tsoi (i) is the founder of Calson Investment and has served as the director of Calson Investment since 1992; and (ii) has served as the chairman of Changzhou Qifa since 2003. Moreover, Mr. Tsoi’s has been active in public services and holds positions in various committees and charities in the PRC and Hong Kong. For details, please refer to the Letter from Dakin Capital Limited in the Composite Document. Given Mr. Tsoi’s background and experience in manufacturing business as well as his business network, we consider that he may enhance efficiency of the operations of the Group and bring business opportunities to the Group. Independent Shareholders are advised to closely monitor the development of the business of the Group.

On the basis that (i) the future financial performance of the Company will be dependent on textile industry and market activities undertaken by its customers; (ii) contribution from the sales of shoes business will be mainly subject to the footwear market in the United Kingdom and the sales strategy of its wholesale customers; and (iii) the Offeror will continue to operate its existing business, we consider that the future prospects of the Group remain challenging in the near future and will depend on the future business plans and strategy of the Company to be formulated by the Offeror.

4. Information of the Offeror

The Offeror is a company incorporated in the British Virgin Islands with limited liability and is principally engaged in investment holding. As at the Latest Practicable Date, Mr. Tsoi is the sole director and owner of the entire issued share capital of the Offeror.

Mr. Tsoi is the director of Calson Investment Limited, a footwear distribution enterprise supplying leather, PVC, textile shoes, sandals, etc. to customers worldwide. Mr. Tsoi is also the executive director of Changzhou Qifa Shoes Co., Ltd.* (常州啟發鞋業有限公司), a company engaged in manufacturing and distribution of shoes and Changzhou Qichen Investment Co., Ltd.* (常州啟辰投資有限公司), a company engaged in real estate sales and property management, and a supervisor of Putian Qiming Shoes Co., Ltd.* (莆田啟明鞋業有限公司), a company engaged in manufacturing and distribution of shoes.

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Mr. Tsoi is also a Standing Committee of the Hunan Provincial Committee of the Chinese People's Political Consultative Conference ("CPPCC") Hong Kong Convener, Vice Chairman of the Hong Kong Provincial CPPCC Member Association, School Supervisor of TWGHs Tsoi Wing Sing Primary School* (東華三院蔡榮星小學校監), Deputy Chairman of Hong Kong Volunteers Federation (香港義工聯盟常務副主席) and Expert of Silk Road Planning Research Center* (絲路規劃研究中心專家). Mr. Tsoi was also a Standing Committee Member of the 5th Fujian Putian Committee of the CPPCC, the chairman of Tung Wah Group of Hospitals from 2019 to 2020, and the vice chairman of Tung Wah Group of Hospitals from 2015 to 2019. Mr. Tsoi was also awarded the Bronze Bauhinia Star in recognition of his significant contributions and outstanding service over a long period of time in Hong Kong.

5. Principal terms of the Offer

Comparison of Offer Price

The Offer Price of HK0.79 per Offer Share represents:

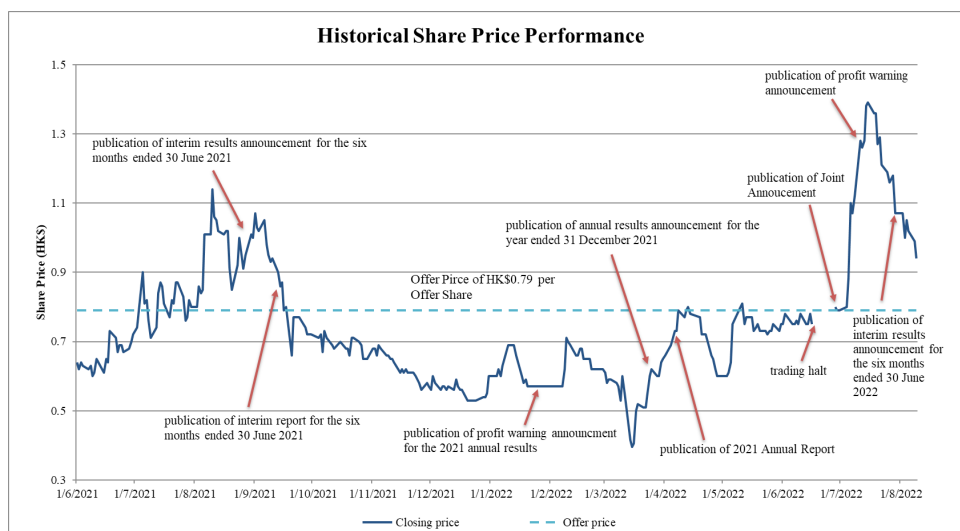
- (i) a discount of approximately 15.96% to the closing price of HK\$0.94 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) a premium of approximately 5.33% over the closing price of HK\$0.75 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (iii) a premium of approximately 3.67% over the average closing price of approximately HK0.762 per Share as quoted on the Stock Exchange for the 5 consecutive trading days immediately prior to and including the Last Trading Day;
- (iv) a premium of approximately 3.95% over the average closing price of approximately HK\$0.76 per Share as quoted on the Stock Exchange for the 10 consecutive trading days immediately prior to and including the Last Trading Day;
- (v) a premium of approximately 6.04% over the average closing price of approximately HK\$0.745 per Share as quoted on the Stock Exchange for the 30 consecutive trading days prior to and including the Last Trading Day;
- (vi) a premium of approximately 154.84% over the audited consolidated net asset value attributable to the Shareholders of approximately HK0.31 per Share as at 31 December 2021 (being the date to which the latest audited consolidated annual results of the Group were made up), calculated based on the Group's audited consolidated net assets attributable to the Shareholders of approximately RMB334,706,000 (equivalent to approximately HK391,606,000) as at 31 December 2021 and 1,260,000,000 Shares in issue as at the Latest Practicable Date; and

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- (vii) a premium of approximately 150.79% over the unaudited consolidated net asset value attributable to the Shareholders of approximately HK\$0.315 per Share as at 30 June 2022 (being the date to which the latest unaudited consolidated interim results of the Group were made up), calculated based on the Group's unaudited consolidated net assets attributable to the Shareholders of approximately RMB339,726,000 (equivalent to approximately HK\$397,479,420) as at 30 June 2022 and 1,260,000,000 Shares in issue as at the Latest Practicable Date.

Historical price performance of the Shares

We have reviewed the movement of the daily closing price of the Shares as quoted on the Stock Exchange during the period commencing from 1 June 2021 up to 26 June 2022, i.e. immediately before the publication of the Joint Announcement (both days inclusive) (the “**Pre-announcement Period**”) and from 27 June 2022 to the Latest Practicable Date (the “**Post-announcement Period**”) (the Pre-announcement Period and the Post-announcement Period are collectively referred to as the “**Review Period**”). We consider that the duration of the Review Period of approximately one year prior to the commencement of the Offer Period would be a reasonable and sufficient period to illustrate the recent closing price movement of the Shares. The daily closing prices of the Shares are illustrated as follows:



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

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(i) *Pre-announcement Period*

The Shares were generally traded within a range of HK\$0.395 to HK\$1.14 per Share during the Pre-announcement Period. The highest closing price of the Shares was HK\$1.14 per Share on 10 August 2021 and the lowest closing price of the Shares was HK\$0.395 per Share on 15 March 2022. The Share price showed fluctuation around the average closing price of the Pre-announcement Period of approximately HK\$0.70 per Share. The Shares were traded below the Offer Price for 203 trading days out of the total 257 trading days (representing approximately 79.0% of the total number of trading days) during the Pre-announcement Period. The Offer Price represents (i) a premium of approximately 12.9% over the average closing price of approximately HK\$0.70 per Share; (ii) a premium of approximately 100.0% over the lowest closing price of HK\$0.395 per Share; and (iii) a discount of approximately 30.7% to the highest closing price of HK\$1.14 per Share during the Pre-announcement Period.

During the period from 1 June 2021 to 31 August 2021, the closing price of the Shares exhibited an increasing trend and rose to the highest closing price at HK\$1.14 per Share on 10 August 2021. We have discussed with the Company regarding the increasing trend of the Share price and were advised that they are not aware of any particular reason that led to the increase in the price of the Shares. Subsequently, the closing price of the Shares dropped sharply within a short period of time from HK\$1.07 on 1 September 2021 to HK\$0.66 on 20 September 2021. Thereafter, the closing price of the Shares then exhibited a decreasing trend and reached a relatively low closing price of HK\$0.53 on 24 December 2021. We have enquired with the Company and were advised that they are not aware of any particular reason for the price movement. From 1 January 2022 to mid-February 2022, the closing price of the Shares was fluctuating within a range between approximately HK\$0.6 and HK\$0.7 per Share. Subsequent to mid-February 2022, the closing price of the Shares exhibited a significant drop from HK\$0.71 per Share on 9 February 2022 to HK\$0.395 per Share on 15 March 2022. We observed that such downward movement of the closing price of the Shares was generally in line with the Hang Seng Index during the same period. It was then followed by a rebound during mid-March 2022 to mid-April 2022. The closing price continued to rise to HK\$0.8 per Share on 13 April 2022 and experienced a sudden drop to HK\$0.6 per Share on 28 April 2022 and rebounded to HK\$0.81 per Share on 11 May 2022. We have discussed with the Company regarding the above fluctuation of the Share price and were advised that they are not aware of any particular reason for the price movement. Subsequently, the closing price generally traded within the range of HK\$0.72 to HK\$0.78 per Share until the Company published a trading halt announcement on 16 June 2022. The Shares closed at HK\$0.75 per Share on 16 June 2022 and continued to be halted from trading before 28 June 2022.

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(ii) *Post-announcement Period*

Following the date of publication of the Joint Announcement on 27 June 2022, the trading of the Shares resumed on 28 June 2022 and the Shares started to exhibit an increasing trend. Despite the Company's publication of profit warning announcement on 12 July 2022 (the "**Profit Warning Announcement**"), the closing price of the Shares reached its highest level at HK\$1.39 per Share on 15 July 2022. As at the Latest Practicable Date, the price of the Shares was closed at HK\$0.94 per Share. During the Post-announcement Period, the average closing price of the Shares is approximately HK\$1.11 per Share. The Offer Price represents a discount of approximately 28.8% to the average closing price during the Post-announcement Period. As advised by the Company, it is not aware of any specific reason for the fluctuation of the closing price of the Shares during the Post-announcement Period. From the above observations, we consider that the increase in the closing price of the Shares during the Post-announcement Period may have reflected the market perceptions on the expectation of the Group's future performance as a result of the change of controlling Shareholding upon Completion.

As mentioned in the paragraph headed "Comparison of Offer Price" above, the Offer Price of HK\$0.79 per Share represents (i) the premium of approximately 5.33% over the closing price of the Shares on the Last Trading Day; (ii) the premium of approximately 3.67%, 3.95% and 6.04% over the average closing price of the Shares for the five, ten and thirty consecutive trading days immediately prior to and including the Last Trading Day respectively; and (iii) the premium of approximately 226.4% over the Consideration per Sale Share of HK0.242. Moreover, the Shares were traded below the Offer Price for 203 trading days out of the total 257 trading days (representing approximately 79.0% of the total number of trading days) during the Pre-announcement Period. Based on the sole perspective of the historical price of the Shares, we consider that the Offer Price at HK\$0.79 is fair and reasonable. However, Independent Shareholders should consider the overall perspective of the various factors contained in different sections of this letter before making their decision on the acceptance of the Offer.

However, we noted that the price of the Shares has been closed above the Offer Price during the period after the Last Trading Day up to and including the Latest Practicable Date with closing prices of the Shares ranging from HK\$0.79 to HK\$1.39. Based on the foregoing, we are of the view that the increase in the closing price of the Shares during the Post-announcement Period may have reflected the market perceptions on the expectation of the Group's future performance as a result of the change of controlling Shareholding upon Completion, while such expectation may or may not be achieved in the future. There is no assurance that the Share prices will continue to maintain at the current level after the Offer Period. Independent Shareholders are reminded to closely monitor the market price of the Shares and consider selling their Shares in the open market during the Offer Period, instead of accepting the Offer, should such sale proceeds, net of all transaction costs, exceed the amount receivable under the Offer.

Shareholders should note that the information set out above is not an indication of the future performance of the Shares and that the price of the Shares may increase or decrease from its closing prices as at the Latest Practicable Date.

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Liquidity of the Shares

The table below sets out the trading volume of the Shares of the Pre-announcement Period and the Post-announcement Period:

Month/Period	Total trading volume of the Shares	Number of trading days	Average daily trading volume (Note 1)	Approximately% of average daily trading volume to the total number of issued Shares as at the end of the period/ month (Note 2)	Approximately% of average daily trading volume to the then total number of issued Shares held by the public as at the end of the period/ month (Note 3)
Pre-announcement Period					
2021					
June	25,434,000	21	1,211,143	0.10%	0.30%
July	69,485,000	21	3,308,810	0.26%	0.81%
August	79,754,400	22	3,625,200	0.29%	0.89%
September	40,905,000	21	1,947,857	0.15%	0.48%
October	4,930,000	18	273,889	0.02%	0.07%
November	8,280,000	22	376,364	0.03%	0.09%
December	6,585,000	22	299,318	0.02%	0.07%
2022					
January	2,075,000	21	98,810	0.01%	0.02%
February	4,895,000	17	287,941	0.02%	0.07%
March	17,835,000	23	775,435	0.06%	0.19%
April	7,170,000	18	398,333	0.03%	0.10%
May	3,250,000	20	162,500	0.01%	0.04%
June (up to 16 June 2022)	1,370,000	11	124,545	0.01%	0.03%
Post-announcement Period					
2022					
June (from 27 June 2022 up to 30 June 2022)	13,880,000	3	4,626,667	0.37%	1.60%
July	33,065,000	20	1,653,250	0.13%	0.57%
August (from 1 August 2022 up to the Latest Practicable Date)	1,780,000	7	254,286	0.02%	0.09%

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

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Notes:

1. Average daily trading volume is calculated by dividing the total trading volume of the Shares for the month/period by the number of trading days during the month/period.
2. The calculation is based on the average daily trading volumes of the Shares divided by the total issued share capital of the Company at the end of each month or each period, as applicable.
3. The calculation is based on the average daily trading volumes of the Shares divided by the total issued share capital of the Company held by the public at the end of each month or each period, as applicable, whereas the total issued share capital of the Company held by the public during the Pre-announcement Period and the Post-announcement Period were 409,500,000 Shares and 290,000,000 Shares respectively.

The average daily trading volume for the respective month or period during the Pre-announcement Period ranged from approximately 98,810 Shares to approximately 3,625,200 Shares, representing approximately 0.01% to 0.29% of the total number of issued Shares and approximately 0.02% to 0.89% of the total number of issued Shares held by public.

During the Post-announcement Period, we noted that there was an increase in trading volume of the Shares. From 27 June 2022 to 30 June 2022, and from 1 July 2022 to 31 July 2022, the average daily trading volume to the total number of issued Shares were approximately 0.37% and 0.13% respectively, while the average daily trading volume to the total number of issued Shares held by public were approximately 1.60% and 0.57% respectively. From 1 August 2022 to the Latest Practicable Date, the average daily trading volume of the Shares to the total number of issued Shares and the average daily trading volume of the Shares to the total number of issued Shares held by public were decreased to approximately 0.02% and 0.09% respectively, being relatively lower than those during the period from 27 June 2022 to 31 July 2022. Apart from the Joint Announcement, the Profit Warning Announcement and the 2022 Interim Results Announcement, there were no other material announcements published by the Company during the Post-announcement Period, we consider that the increase in the trading volume of the Shares was mainly attributable to the Offer.

Taking into consideration that the trading volume of the Shares was thin in general during the Pre-announcement Period, it is uncertain that the overall liquidity of the Shares could be maintained in the near future and that there would be sufficient liquidity in the Shares for the Independent Shareholders to dispose of a significant number of Shares in the open market, especially those with large volume of Shares, without exerting a downward pressure on the Share price. The Offer provides an exit alternative for the Independent Shareholders who would like to realise their investments in the Shares, especially for those holding a large block of the Shares, at the Offer Price.

Nonetheless, Independent Shareholders should also take into account of their individual risk preference and tolerance level before making any investment decision in relation to the Shares. If any Independent Shareholders who, after reading through the Composite Document and this letter, would like to realise their investments in the Shares are able to dispose of their Shares in the open market and/or identify potential purchaser(s) to acquire for their Shares at a price higher than the Offer Price and the net proceeds from the sale of their Shares would exceed the net amount receivable under the Offer, those Independent Shareholders may consider not accepting the Offer but selling their Shares in the open market and/or to such potential purchaser(s) (either in all or in part), as they wish to do so and as they think fit having regard to their own circumstances together with the relevant risks and uncertainties based on their individual risk preference and tolerance level.

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Market comparable analysis

To evaluate the fairness and reasonableness of the Offer Price, we have considered price-to-earnings multiple (the “**P/E Ratio**”) analysis and price-to-book multiple (the “**P/B Ratio**”) analysis, which are commonly adopted approaches in the valuation of a listed company in the investment community. Given that (i) the Group has recorded net profit in its latest financial year; and (ii) the Group is engaged in the manufacturing and sales of lace and provision of dyeing services which are capital-intensive in nature, we considered the P/E Ratio and the P/B Ratio are appropriate parameters for evaluating the valuation of entities in the manufacturing and processing industry.

Having considered that (i) the Group is principally engaged in (a) manufacturing and sales of lace and (b) provision of dyeing services, which in aggregate account for approximately 90.6% of total revenue for FY2021; and (ii) the principal place of business of the Group is the PRC, we have attempted to identify companies listed on the Stock Exchange that are principally engaged in textile industry of which over 50% of their revenue are generated from manufacturing and sales of textile related materials and/or provision of dyeing services in the PRC. To the best of our knowledge, we have identified 18 companies (the “**Comparable Company(ies)**”) representing an exhaustive list of comparable companies having met the above selection criteria.

Company Name (Stock code)	Principal Business	Market capitalisation (HK\$ million) (Note 1)	Net profit attributable to the shareholders of the company (HK\$ million) (Note 2)	Net assets attributable to the shareholders of the company (HK\$ million) (Note 3)	P/E Ratio (time) (Note 4)	P/B Ratio (time) (Note 5)
Texwinca Holdings (321)	Production, dyeing and sale of knitted fabric, yarn and garments; the retailing and distribution of casual apparel and accessories and the provision of franchise services	1,796.2	191.1	5,437.4	9.40	0.33
Fountain Set (Holdings) (420)	Textile and garment businesses, including the production and sale of knitted fabric and garments	1,310.8	241.3	3,560.2	5.43	0.37
Kingdom Holdings (528)	Manufacturing of linen yarn and the sale of the products	793.4	103.2	1,480.9	7.69	0.54
Greatime International Holdings (844)	Manufacturing of knitted fabrics and innerwear	192.8	(16.7)	317.9	N/A (Note 6)	0.61
Pacific Textiles Holdings (1382)	Manufacturing and trading of textiles products, including high quality cotton and synthetic knitted fabrics.	4,995.7	572.7	3,419.1	8.72	1.46
Yadong Group Holdings (1795)	Design, process and sale of textile fabric products	534.0	41.1	267.1	12.98	2.00

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Company Name (Stock code)	Principal Business	Market capitalisation (HK\$ million) (Note 1)	Net profit attributable to the shareholders of the company (HK\$ million) (Note 2)	Net assets attributable to the shareholders of the company (HK\$ million) (Note 3)	P/E Ratio (time) (Note 4)	P/B Ratio (time) (Note 5)
Hingtex Holdings (1968)	Manufacturing and sales of denim fabric	112.0	(11.9)	363.4	N/A (Note 6)	0.31
Nameson Holdings (1982)	Manufacturing of knitwear products	991.5	263.3	2,408.4	3.77	0.41
Best Pacific International Holdings (2111)	Manufacture and trading of elastic fabric, elastic webbing and lace	1,767.7	401.8	3,281.5	4.40	0.54
Billion Industrial Holdings (2299)	Manufacturing and sales of polyester filament yarns products, polyester products, polyester industrial yarns products and ES fiber products	9,747.3	2,058.9	10,650.9	4.73	0.92
Kam Hing International Holdings (2307)	Production and sale of knitted fabric and dyed yarn and production and sale of garment products and provision of related subcontracting services	249.7	46.0	2,208.7	5.43	0.11
Texhong Textile Group (2678)	Manufacture and distribution of quality yarns, grey fabrics, garment fabrics as well as garments	7,683.7	3,141.6	11,744.8	2.45	0.65
Weiqliao Textile Company (2698)	Manufacture and sale of cotton yarn, grey fabric and denim and generation and sale of electricity and steam	2,221.6	718.6	22,329.1	3.09	0.10
Yongsheng Advanced Materials (3608)	Dyeing and processing of differentiated polyester filament fabric, provision of renovation, maintenance, alteration and addition services, properties investment and environmental water project operation	431.9	(287.0)	1,357.6	N/A (Note 6)	0.32
China Weaving Materials Holdings (3778)	Manufacturing and trading of yarns products and staple fibres	626.2	237.0	914.0	2.64	0.69
Zhejiang Yongan Rongtong Holdings (8211)	Manufacturing and sales of woven fabrics, provision of woven fabrics subcontracting services, assets management services and investment advisory services	87.2	(22.0)	258.8	N/A (Note 6)	0.34
ST International Holdings (8521)	Provision of functional knitted fabrics in the PRC	62.4	(32.5)	151.6	N/A (Note 6)	0.41

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Company Name (Stock code)	Principal Business	Market capitalisation (HK\$ million) (Note 1)	Net profit attributable to the shareholders of the company (HK\$ million) (Note 2)	Net assets attributable to the shareholders of the company (HK\$ million) (Note 3)	P/E Ratio (time) (Note 4)	P/B Ratio (time) (Note 5)
Narnia (Hong Kong) Group (8607)	Manufacture and sale of fabrics and the provision of printing and dyeing services	136.0	(37.1)	151.8	N/A (Note 6)	0.90
				Min	2.45	0.10
				Max	12.98	2.00
				Median	5.08	0.47
				Average	5.89	0.61
The Company (1440)	Manufacturing of lace and provision of dyeing services	995.4 (Note 7)	24.8	397.5	40.16 (Note 8)	2.50 (Note 9)

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

Notes:

- The market capitalisation is calculated based on the closing share price and number of issued shares of the respective companies as at the Last Trading Day.
- The net profit attributable to the shareholders of the company refers to the net profit attributable to the shareholders of the company as disclosed in their respective latest published annual reports.
- The net asset attributable to the shareholders of the company refers to the net asset attributable to the shareholders of the company as disclosed in their respective latest published annual reports or interim reports.
- The P/E Ratio of the Comparable Companies are calculated based on their respective market capitalisation divided by the net profit attributable to the shareholders of the company as disclosed in their respective latest published annual reports.
- The P/B Ratio of the Comparable Companies are calculated based on their respective market capitalisation divided by the net asset attributable to the shareholders of the company as disclosed in their respective latest published annual reports or interim reports.
- The P/E Ratio of those Comparable Companies are not available as those Comparable Companies recorded net loss for their latest financial year.
- The implied market capitalisation of the Company (“**Implied Market Capitalisation**”) is calculated based on the Offer Price and number of issued shares of the Company as at the Latest Practicable Date (i.e. 1,260,000,000 Shares).
- The P/E Ratio of the Company is calculated based on the Implied Market Capitalisation divided by the profit for the year attributable to owners of the Company for FY2021.
- The P/B Ratio of the Company is calculated based on the Implied Market Capitalisation divided by the net assets of the Company as at 30 June 2022.
- In the event that the presentation currency used in their respective latest published annual reports or interim reports of the Comparable Companies and the Company is RMB, any amount denominated in RMB is converted into HK\$ at the rate of RMB1 = HK\$1.17 for illustration purpose.

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Upon comparison with the Comparable Companies, we noted that the P/E Ratio implied by the Offer Price (the “**Implied P/E Ratio**”) of approximately 40.16 times is higher than the range of the P/E Ratios presented by the Comparable Companies as at the Last Trading Day and is significantly higher than the median and average P/E Ratios of approximately 5.08 times and 5.89 times respectively. On the other hand, the P/B Ratio implied by the Offer Price (the “**Implied P/B Ratio**”) of approximately 2.50 times is higher than the range of the P/B Ratios presented by the Comparable Companies as at the Last Trading Day and is also significantly higher than the median and average P/B Ratios of approximately 0.47 time and 0.61 time respectively.

Further, we noted that the market capitalisation of the Comparables Companies ranged from approximately HK\$62.4 million to HK\$9,747.3 million. In order to eliminate the effect of differences in market capitalisation on the P/E Ratio and P/B Ratio of the Comparable Companies, we have further narrowed down the search by identifying the Comparable Companies with market capitalisation as at the Last Trading Day between HK\$500 million and HK\$1,500 million which is more comparable to the Implied Market Capitalisation (being the lower range and upper range of the Implied Market Capitalisation of approximately HK\$995 million). To the best of our knowledge, we have shortlisted an exhaustive list of 5 companies (the “**Shortlisted Comparable Company(ies)**”).

Company Name (Stock code)	Principal Business	Market capitalisation (HK\$ million) (Note 1)	Net profit attributable to the shareholders of the company	Net assets attributable to the shareholders of the company	P/E Ratio (time) (Note 4)	P/B Ratio (time) (Note 5)
			(HK\$ million) (Note 2)	(HK\$ million) (Note 3)		
Fountain Set (Holdings) (420)	Textile and garment businesses, including the production and sale of knitted fabric and garments	1,310.8	241.3	3,560.2	5.43	0.37
Kingdom Holdings (528)	Manufacturing of linen yarn and the sale of the products	793.4	103.2	1,480.9	7.69	0.54
Yadong Group Holdings (1795)	Design, process and sale of textile fabric products	534.0	41.1	267.1	12.98	2.00
Nameson Holdings (1982)	Manufacturing of knitwear products	991.5	263.3	2,408.4	3.77	0.41
China Weaving Materials Holdings (3778)	Manufacturing and trading of yarns products and staple fibres	626.2	237.0	914.0	2.64	0.69
				Min	2.64	0.37
				Max	12.98	2.00
				Median	5.43	0.54
				Average	6.50	0.80
The Company (1440)	Manufacturing of lace and provision of dyeing services	995.4 (Note 6)	24.8	397.5	40.16 (Note 7)	2.50 (Note 8)

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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Notes:

1. The market capitalisation is calculated based on the closing share price and number of issued shares of the respective companies as at the Last Trading Day.
2. The net profit attributable to the shareholders of the company refers to the net profit attributable to the shareholders of the company as disclosed in their respective latest published annual reports.
3. The net asset attributable to the shareholders of the company refers to the net asset attributable to the shareholders of the company as disclosed in their respective latest published annual reports or interim reports.
4. The P/E Ratio of the Shortlisted Comparable Companies are calculated based on their respective market capitalisation divided by the net profit attributable to the shareholders of the company as disclosed in their respective latest published annual reports.
5. The P/B Ratio of the Shortlisted Comparable Companies are calculated based on their respective market capitalisation divided by the net asset attributable to the shareholders of the company as disclosed in their respective latest published annual reports or interim reports.
6. The Implied Market Capitalisation is calculated based on the Offer Price and number of issued shares of the Company as at the Latest Practicable Date (i.e. 1,260,000,000 Shares).
7. The P/E Ratio of the Company is calculated based on the Implied Market Capitalisation divided by the profit for the year attributable to owners of the Company for FY2021.
8. The P/B Ratio of the Company is calculated based on the Implied Market Capitalisation divided by the net assets of the Company as at 30 June 2022.
9. In the event that the presentation currency used in their respective latest published annual reports or interim reports of the Comparable Companies and the Company is RMB, any amount denominated in RMB is converted into HK\$ at the rate of RMB1 = HK\$1.17 for illustration purpose.

Upon comparison with the Shortlisted Comparable Companies, we noted that the Implied P/E Ratio of approximately 40.16 times is higher than the range of the P/E Ratios presented by the Shortlisted Comparable Companies as at the Last Trading Day and is significantly higher than the median and average P/E Ratios of approximately 5.43 times and 6.50 times respectively. On the other hand, the Implied P/B Ratio of approximately 2.50 times is higher than the range of the P/B Ratios presented by the Shortlisted Comparable Companies as at the Last Trading Day and is also significantly higher than the median and average P/B Ratios of approximately 0.54 time and 0.80 time respectively.

Since the Implied P/E Ratio and the Implied P/B Ratio are higher than the range, median and average P/E Ratio and P/B Ratio of the Comparable Companies and the Shortlisted Comparable Companies respectively as stated above, we consider from this perspective that the level of the Offer Price is reasonable.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Transaction comparable analysis

As mentioned above, the Group is principally engaged in (a) manufacturing and sales of lace and (b) provision of dyeing services, which are asset-heavy businesses and require substantial investment in fixed assets, including property, plant and machinery, for its production and processing. To further assess the fairness and reasonableness of the Offer Price from another perspective, we have attempted, based on our research on the website of the Stock Exchange, to identify companies listed on the Main Board of the Stock Exchange which (i) are principally engaged in textile industry which over 50% of their revenue are generated from manufacturing and sales of textile related materials and/or provision of dyeing services in the PRC; (ii) own property, plant and machinery to carry on their manufacturing operation which account for not less than 30% of their net asset value; and (iii) have undergone general offer exercise by an offeror since 16 December 2021 and up to the Latest Practicable Date. However, we could not identify any cases based on the aforementioned selection criteria.

In this regard, we have relaxed the selection criteria by extending the review period to approximately twelve months prior to the Last Trading Day (i.e. 16 June 2021) and up to the Latest Practicable Date (the “**Revised Review Period**”) in order to identify more sample transactions. However, we could not identify any sample transactions by during the Revised Review Period. Therefore, we have further relaxed the selection criteria by revising the industry nature from a narrower scope (i.e. textile) to a broader scope (i.e. industrial) taking into account the industrial nature of the Group’s business. We have identified a company listed on the Main Board of the Stock Exchange based on the relaxed selection criteria which has undergone general offer exercise by an offeror during the Revised Review Period (the “**Comparable Transaction**”). We consider that the Revised Review Period to be a reasonable period to provide a general overview of the recent general offer transaction reflective of the latest market conditions and sentiments.

Shareholders should note that the principal activities, market capitalisation, profitability and financial position of the company of the Comparable Transaction are not identical to those of the Company, which may affect how it is actually valued and its determination of offer price. Notwithstanding that there is only one sample identified based on above selection criteria which does not offer a representative sample for analysis, we consider that this analysis on general offer transactions can provide another reference for us to assess the fairness and reasonableness of the Offer Price from a different angle, which may supplement our analysis on historical price of the Shares and comparable companies.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Date of announcement	Company name (stock code)	Business Nature	Offer price (HK\$)	Premium/ (discount) over/(to) the average closing price for the five consecutive trading days immediately prior to and including the last trading day		Premium/ (discount) over/(to) the average closing price for the ten consecutive trading days immediately prior to and including the last trading day		Premium/ (discount) over/(to) the latest published net asset value per share prior to the Last Trading Day
				Premium/ (discount) over/(to) the closing price on the last trading day	Premium/ (discount) over/(to) the closing price on the last trading day	Premium/ (discount) over/(to) the closing price on the last trading day	Premium/ (discount) over/(to) the closing price on the last trading day	
11/2/2022	Time Interconnect Technology (1729)	Manufacture and sales of cable assembly and digital cable products	0.8	1.23%	7.83%	4.42%	59.05%	
27/6/2022	Deyun Holding Ltd (1440)	Manufacturing and sales of lace and provision of dyeing services	0.79	5.33%	3.67%	3.95%	154.84%	

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

As set out in the table above, we note that the offer price of the Comparable Transaction was set at premium over the closing price of the share of the offerees on the last trading day, the average closing prices for the past five and ten consecutive trading days immediately prior to and including the last trading day and its latest published net asset value per share, and we consider that such premiums represent the control premium the relevant offeror was willing to pay in order to acquire majority control in a listed company. In particular, we note that the offer price of the Comparable Transaction represents a premium over the closing price on the last trading day, the average closing prices for the past five and ten consecutive trading days immediately prior to and including the last trading day and their latest published net asset value per share of approximately 1.23%, 7.83%, 4.42% and 59.05% respectively.

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The Offer Price represents the premium over the closing price on the Last Trading Day, the average closing prices for the past five and ten consecutive trading days immediately prior to and including the Last Trading Day and their latest published net asset value per share of approximately 5.33%, 3.67%, 3.95% and 154.84% respectively. Upon comparison, the premium implied by the Offer Price over (i) the last trading day is higher than that of the Comparable Transaction; (ii) the average closing price for the past five consecutive trading days immediately prior to and including the last trading day is lower than that of the Comparable Transaction; (iii) the average closing price for the past ten consecutive trading days immediately prior to and including the last trading day is slightly lower than that of the Comparable Transaction; and (iv) over the latest published net asset value per Share is substantially higher than that of the Comparable Transaction.

Based on above, the Offer Price, being similar to the offer price of the Comparable Transaction, was also set at premium to the recent closing prices and its latest published net asset value per Share. Notwithstanding that the premium implied by the Offer Price over past five and ten consecutive trading days immediately prior to and including the last trading day are lower than those of the Comparable Transaction, we consider that (i) the comparison on premium implied by the Offer Price over the latest published net asset value is more representative taking into account the Company and the company of the Comparable Transaction are also generally industrial in nature which is capital-intensive; and (ii) the varied results of the comparison between premium implied by the Offer Price with those of the Comparable Transaction are mainly due to the different movement of the closing prices of the Shares and those of the company of the Comparable Transaction during the ten-day period prior to their relevant last trading day. Therefore, we consider that the level of the Offer Price is acceptable.

We wish to highlight that the above analysis does not have much weighting in our assessment and is for reference purpose only, which has not been taken into account in forming our opinion on the terms of the Offer. Independent Shareholders should consider the overall perspective of the various factors, including the historical price performance of the Shares, the net asset value per Share of the Company, the P/E Ratio and P/B Ratio of the Company implied by the Offer Price and the future prospect of the Company and the textile industry.

RECOMMENDATIONS

Having considered the principal factors discussed above and in particular the following:

- (i) the Implied P/E Ratio and Implied P/B Ratio are higher than those of the range, median and average of the Comparable Companies and the Shortlisted Comparables;
- (ii) the Offer Price represents a premium of approximately 150.79% over the unaudited consolidated net asset value attributable to the Shareholders of approximately HK0.315 per Share as at 30 June 2022;
- (iii) the Offer Price has been above the closing price of the Shares for 203 trading days out of 257 trading days during the Pre-announcement Period and represents a premium of approximately 12.9% over the average closing price of the Shares of approximately HK\$0.70 during the Pre-announcement Period;

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- (iv) the premium of the Offer Price over the closing price of the Shares on the Last Trading Day and the average closing prices for last 5, last 10 and last 30 consecutive trading days immediately prior to and including the Last Trading Day are approximately 5.33%, 3.67%, 3.95% and 6.04% respectively;
- (v) the trading volume of the Shares was thin in general during Pre-announcement Period, whereas the Offer provides an exit alternative for the Independent Shareholders who would like to realise their investments in the Shares, especially for those holding a large number of the Shares, at the Offer Price; and
- (vi) the future prospects of the Group remain challenging in the near future, mainly taking into account its high dependence on textile industry and contribution from the sales of shoes business mainly subject to the footwear market in the United Kingdom and the sales strategy of its wholesale customers,

we are of the opinion that the terms of the Offer, including the Offer Price, are fair and reasonable so far as the Independent Shareholders are concerned.

Having mentioned in the paragraph headed “Historical price performance of the Shares” in this letter, the price of the Shares has been traded higher than the Offer Price during the Post-announcement period and up to the Latest Practicable Date. As such, we recommend the Independent Board Committee to advise the Independent Shareholders who wish to dispose all or part of their shareholding, are reminded that they should closely monitor the market price and liquidity of the Shares during the Offer Period, to dispose of their Shares in the market should there be sufficient liquidity of the Shares and the net proceeds obtained from such disposal of the Shares (after deducting all transaction costs) would be higher than the net proceeds from accepting the Offer, and those who are unable to do so during the Offer Period should accept the Offer.

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

Yours faithfully,
For and on behalf of
Octal Capital Limited

Alan Fung	Louis Chan
<i>Managing Director</i>	<i>Director</i>

Note: Mr. Alan Fung has been a responsible officer of Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities since 2003. Mr. Fung has more than 28 years of experience in corporate finance and investment banking and has participated in and completed various advisory transactions in respect of mergers and acquisitions, connected transactions and transactions subject to the compliance to the Takeovers Code of listed companies in Hong Kong.

Mr. Louis Chan has been a responsible officer of Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities since 2008. Mr. Chan has more than 20 years of experience in corporate finance and investment banking and has participated in and completed various advisory transactions in respect of mergers and acquisitions, connected transactions and transactions subject to the compliance to the Takeovers Code of listed companies in Hong Kong.

* For identification purposes only

1. PROCEDURES FOR ACCEPTANCE

To accept the Offer, you should complete and sign the accompanying Form of Acceptance in accordance with the instructions printed thereon, which form part of the terms of the Offer. The instructions set out in this Composite Document should be read together with the instructions printed on the Form of Acceptance which form part of the terms of the Offer.

- (a) If the Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/ or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares is/are in your name, and you wish to accept the Offer in respect of your Shares (whether in full or in part), you must send the duly completed and signed Form of Acceptance together with the relevant Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof), by post or by hand, to the Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, marked "**Deyun Holding Ltd. – Offer**" on the envelope, as soon as possible and in any event no later than 4:00 p.m. on the Closing Date or such later time(s) and/or date(s) as the Offeror may determine and the Offer and the Company may jointly announce as a result of a revision or an extension of the Offer in accordance with the Takeovers Code, if any.
- (b) If the Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares is/are in the name of a nominee company or a name other than your own, and you wish to accept the Offer in respect of your holding of Shares (whether in full or in part), you must either:
 - (i) lodge your Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) with the nominee company, or other nominee, with instructions authorising it to accept the Offer on your behalf and requesting it to deliver the duly completed and signed Form of Acceptance together with the relevant Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Registrar by no later than 4:00 p.m. on the Closing Date; or
 - (ii) arrange for the Shares to be registered in your name by the Company through the Registrar, and deliver the duly completed and signed Form of Acceptance together with the relevant Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Registrar by no later than 4:00 p.m. on the Closing Date;

- (iii) if your Shares have been lodged with your licensed securities dealer/registered institution in securities/custodian bank through CCASS, instruct your licensed securities dealer/registered institution in securities/custodian bank to authorise HKSCC Nominees Limited to accept the Offer on your behalf on or before the deadline set by HKSCC Nominees Limited. In order to meet the deadline set by HKSCC Nominees Limited, you should check with your licensed securities dealer/registered institution in securities/custodian bank for the timing on the processing of your instruction, and submit your instruction to your licensed securities dealer/registered institution in securities/custodian bank as required by them; or
 - (iv) if your Shares have been lodged with your investor participant's account maintained with CCASS, authorise your instruction via the CCASS Phone System or CCASS Internet System on or before the deadline set out by HKSCC Nominees Limited.
- (c) If the Share certificate(s) and/or transfer receipts and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares is/are not readily available and/or is/are lost, as the case may be, and you wish to accept the Offer in respect of your Shares, the Form of Acceptance should nevertheless be completed and signed and delivered to the Registrar together with a letter stating that you have lost one or more of your Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) or that it/they is/are not readily available. If you find such document(s) or if it/they become(s) available, it/they should be forwarded to the Registrar as soon as possible thereafter. If you have lost your Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title, you should also write to the Registrar a letter of indemnity which, when completed in accordance with the instructions given, should be delivered to the Registrar. The Offeror shall have the absolute discretion to decide whether any Shares in respect of which the share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title is/are not readily available and/or is/are lost will be taken up by the Offeror.
- (d) If you have lodged transfer(s) of any of your Shares for registration in your name and have not yet received your Share certificate(s), and you wish to accept the Offer in respect of your Shares, you should nevertheless complete and sign the Form of Acceptance and deliver it to the Registrar together with the transfer receipt(s) duly signed by yourself. Such action will be deemed to be an irrevocable authority to the Offeror and/or Dakin Securities Limited or their respective agent(s) to collect from the Company or the Registrar on your behalf the relevant Share certificate(s) when issued and to deliver such Share certificate(s) to the Registrar on your behalf and to authorise and instruct the Registrar to hold such Share certificate(s), subject to the terms and conditions of the Offer, as if it was/they were delivered to the Registrar with the Form of Acceptance.

- (e) Acceptance of the Offer will be treated as valid only if the duly completed Form of Acceptance is received by the Registrar by no later than 4:00 p.m. on the Closing Date (or such later time and/or date as the Offeror may determine and the Offeror and the Company may jointly announce with the consent of the Executive) and the Registrar has recorded the acceptance and any relevant documents required by Note 1 to Rule 30.2 of the Takeovers Code have been so received, and is:
 - (i) accompanied by the relevant Share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) and, if that/those Share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) is/are not in your name, such other documents (e.g. a duly stamped transfer of the relevant Share(s) in blank or in favour of the acceptor executed by the registered holder) in order to establish your right to become the registered holder of the relevant Shares; or
 - (ii) from a registered Independent Shareholder or his/her/its personal representative (but only up to the amount of the registered holding and only to the extent that the acceptance relates to the Shares which are not taken into account under another subparagraph of this paragraph (e)); or
 - (iii) certified by the Registrar or the Stock Exchange.
- (f) If the Form of Acceptance is executed by a person other than the registered Independent Shareholder, appropriate documentary evidence of authority (e.g. grant of probate or certified copy of a power of attorney) to the satisfaction of the Registrar must be produced.
- (g) In Hong Kong, the seller's ad valorem stamp duty on acceptances of the Offer will be payable by the relevant Independent Shareholders at a rate of 0.13% of (i) the market value of the Offer Shares; or (ii) the consideration payable in respect of the relevant acceptances of the Offer by the Offeror, whichever is higher, and will be deducted from the cash amount payable by the Offeror to such Independent Shareholder on acceptance of the Offer (where the amount of stamp duty is a fraction of a dollar, the stamp duty will be rounded up to the nearest dollar). The Offeror will arrange for payment of the seller's ad valorem stamp duty on behalf of the relevant Independent Shareholders accepting the Offer and will pay the buyer's ad valorem stamp duty in connection with the acceptances of the Offer and the transfers of the Offer Shares in accordance with the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong).
- (h) No acknowledgement of receipt of any Form of Acceptance, Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) will be given.
- (i) The address of the Registrar, Computershare Hong Kong Investor Services Limited, is at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

2. SETTLEMENT OF THE OFFER

- (a) Provided that a valid Form of Acceptance and the relevant certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of the relevant Shares are complete and in good order in all respects and have been received by the Registrar before the close of the Offer, a cheque for the amount (rounding up to the nearest cent) due to each of the Independent Shareholders who accepts the Offer less seller's ad valorem stamp duty in respect of the Shares tendered by him/her/it under the Offer will be despatched to such Independent Shareholder by ordinary post at his/her/its own risk as soon as possible but in any event within seven (7) Business Days following the date of receipt by the Registrar of the duly completed acceptances of the Offer and all relevant documents of title which render such acceptance complete, valid and in compliance with Note 1 to Rule 30.2 of the Takeovers Code.
- (b) Settlement of the consideration to which any accepting Independent Shareholder is entitled under the Offer will be implemented in full in accordance with the terms of the Offer (save with respect to the payment of seller's ad valorem stamp duty), without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against such accepting Independent Shareholder.
- (c) Cheque(s) not presented for payment within six months from the date of issue of the relevant cheques will not be honored and be of no further effect, and in such circumstances cheque holders should contact the Offeror for payment.
- (d) No fraction of a cent will be payable and the amount of cash consideration payable to an Independent Shareholder who accepts the Offer will be rounded up to the nearest cent.

3. ACCEPTANCE PERIOD AND REVISIONS

- (a) The Offer is made on 12 August 2022, being the date of despatch of this Composite Document, and are capable of acceptance on and from this date until 4:00 p.m. on the Closing Date.
- (b) In order to be valid for the Offer, the Form of Acceptance must be received by the Registrar in accordance with the instructions printed thereon by 4:00 p.m. on the Closing Date, unless the Offer is extended or revised with the consent of the Executive.
- (c) The Offeror reserves the right to revise the terms of the Offer after the despatch of this Composite Document until such day as it may determine and in accordance with the Takeovers Code. If the Offeror revises the terms of the Offer, all the Independent Shareholders, whether or not they have already accepted the Offer, will be entitled to accept the revised Offer under the revised terms.

- (d) The Offeror will publish an announcement on the Stock Exchange's website no later than 7:00p. m. on the Closing Date stating the results of the Offer and whether the Offer has been extended, revised or has expired.
- (e) If the Offer is extended or revised, the Offeror and the Company will jointly issue an announcement in relation to such extension or revision of the Offer, which will state the next closing date or the Offer will remain open until further notice. In the latter case, at least fourteen (14) days' notice in writing will be given, before the Offer is closed, to the Independent Shareholders who have not accepted the Offer. The revised Offer will be kept open for at least fourteen (14) days following the date on which the revised Offer document is posted.
- (f) If the Closing Date of the Offer is extended, any reference in this Composite Document and in the Form of Acceptance to the Closing Date shall, except where the context otherwise requires, be deemed to refer to the closing date of the Offer as so extended.

4. ANNOUNCEMENTS

- (a) As required by Rule 19 of the Takeovers Code, by 6:00 p.m. on the Closing Date (or such later time and/or date as the Executive may in exceptional circumstances permit), the Offeror must inform the Executive and the Stock Exchange of its decision in relation to the revision, extension or expiry of the Offer. The Offeror must publish an announcement in accordance with the Takeovers Code on the Stock Exchange's website by 7:00 p.m. on the Closing Date stating, amongst other information required under Rule 19.1 of the Takeovers Code, whether the Offer has been revised, extended, or have expired. The announcement will state the following:
 - (i) the total number of Shares and rights over Shares for which acceptance of the Offer have been received;
 - (ii) the total number of Shares and rights over Shares held, controlled or directed by the Offeror and/or parties acting in concert with it before the Offer Period;
 - (iii) the total number of Shares and rights over Shares acquired or agreed to be acquired during the Offer Period by the Offeror and/or parties acting in concert with it;
 - (iv) details of any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company which the Offeror and/or the parties acting in concert with it have borrowed or lent, save for any borrowed shares which have been either on-lent or sold; and
 - (v) the percentages of the issued share capital of the Company and the percentages of voting rights of the Company represented by these numbers of Shares.

- (b) In computing the total number of Shares represented by acceptances, only valid acceptances that are in all respects complete, in good order and fulfill the acceptance conditions set out in paragraph 1 of this Appendix, and which have been received by the Registrar no later than 4:00 p.m. on the Closing Date, unless the Offer is extended or revised with the consent of the Executive, shall be included.
- (c) As required under the Takeovers Code, all announcements in relation to the Offer must be made in accordance with the requirements of the Takeovers Code and the Listing Rules, where appropriate. Any announcement in relation to the Offer will be published on the websites of the Stock Exchange at www.hkexnews.hk and the Company at www.ds-lace.com.

5. RIGHT OF WITHDRAWAL

- (a) Acceptance of the Offer tendered by Independent Shareholders shall be irrevocable and cannot be withdrawn, except in the circumstances set out in the subparagraph (b) below;
- (b) in the circumstances set out in Rule 19.2 of the Takeovers Code (which is to the effect that if the Offeror is unable to comply with any of the requirements of making announcements relating to the Offer as described under the paragraph headed “4. Announcements” above), the Executive may require that the Independent Shareholders who have tendered acceptances of the Offer be granted a right of withdrawal, on terms acceptable to the Executive, until such requirements can be met. In such case, when the Independent Shareholders withdraw their acceptance(s), the Offeror shall, as soon as possible but in any event within 10 days thereof, return by ordinary post the Share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) lodged with the Form of Acceptance to the relevant Independent Shareholder(s) at their own risks.

6. STAMP DUTY

Sellers’ Hong Kong ad valorem stamp duty on acceptances of the Offer at a rate of 0.13% of the consideration payable in respect of the relevant acceptances or, if higher, the market value of the Offer Shares subject to such acceptance, will be deducted from the amount payable to the Independent Shareholders who accept the Offer. The Offeror will arrange for payment of sellers’ ad valorem stamp duty on behalf of the Independent Shareholders who accept the Offer and pay the buyer’s Hong Kong ad valorem stamp duty in connection with the acceptance of the Offer and the transfers of the relevant Offer Shares in accordance with the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong).

7. OVERSEAS SHAREHOLDERS

The Offeror intends to make the Offer available to all Independent Shareholders, including the Overseas Shareholders. As the Offer to persons with a registered address in jurisdictions outside Hong Kong may be prohibited or affected by the laws and regulations of the relevant jurisdictions, the Overseas Shareholders and beneficial owners of the Shares who are citizens, residents or nationals of a jurisdiction outside Hong Kong should obtain information about and observe any relevant applicable legal or regulatory requirements and, where necessary, seek legal advice in respect of the Offer. It is the responsibility of the Overseas Shareholders who wish to accept the Offer to satisfy themselves as to the full observance of the laws and regulations of the relevant jurisdictions in connection with the acceptance of the Offer, including the obtaining of any governmental, exchange control or other consents and any registration or filing which may be required or the compliance with other necessary formalities or legal and regulatory requirements and the payment of any transfer or other taxes or other required payments due from such shareholders and beneficial owners in respect of such jurisdictions.

The Offeror, parties acting in concert with the Offeror, the Company, the Vendor, the Guarantor, the Independent Financial Adviser, Dakin Securities Limited, Dakin Capital Limited, the Registrar, or any of their respective ultimate beneficial owners, directors, officers, advisers, associates, agents or any other person involved in the Offer shall be entitled to be fully indemnified and held harmless by the Overseas Independent Shareholders for any taxes as such persons may be required to pay.

Acceptance of the Offer by any Overseas Shareholder will be deemed to constitute a representation and warranty from such Overseas Shareholder to the Offeror that the local laws and requirements have been complied with. The Overseas Shareholders should consult their professional advisers if in doubt.

8. NOMINEE REGISTRATION

To ensure equality of treatment of all Independent Shareholders, those Independent Shareholders who hold Shares and as nominees on behalf of more than one beneficial owner should, as far as practicable, treat the holding of each beneficial owner separately. In order for beneficial owners of Shares whose investments are registered in the names of nominees, to accept the Offer, it is essential that they provide instructions of their intentions with regard to the Offer to their nominees.

9. TAXATION ADVICE

Independent Shareholders are recommended to consult their own professional advisers if they are in any doubt as to the taxation implications of accepting or rejecting the Offer. None of the Offeror, parties acting in concert with the Offeror, the Company, the Vendor, the Guarantor, the Independent Financial Adviser, Dakin Securities Limited, Dakin Capital Limited, the Registrar and (as the case may be) their respective ultimate beneficial owners, directors, officers, agents or associates or any other person involved in the Offer accept responsibility for any taxation effects on, or liabilities of, any persons as a result of their acceptance or rejection of the Offer.

10. GENERAL

- (a) All communications, notices, Form of Acceptance, Share certificate(s), transfer receipt(s), other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) and remittances to settle the consideration payable under the Offer to be delivered by or sent to or from the Independent Shareholders will be delivered by or sent to or from them, or their designated agents, by ordinary post at their own risk, and none of the Company, the Offeror, parties acting in concert with the Offeror, the Vendor, the Guarantor, the Independent Financial Adviser, Dakin Securities Limited, Dakin Capital Limited, the Registrar or any of their respective directors or other parties involved in the Offer or any of their respective agents accept any liability for any loss in postage, delay in transmission or any other liabilities that may arise as a result thereof.
- (b) The provisions set out in the Form of Acceptance form part of the terms and conditions of the Offer.
- (c) The accidental omission to despatch this Composite Document and/or Form of Acceptance or any of them to any person to whom the Offer is made will not invalidate the Offer in any way.
- (d) The Offer is, and all acceptances will be, governed by and construed in accordance with the laws of Hong Kong.
- (e) Due execution of the Form of Acceptance will constitute an authority to the Offeror, Dakin Securities Limited, Dakin Capital Limited or such person or persons as the Offeror may direct to complete, amend and execute any document on behalf of the person or persons accepting the Offer and to do any other act that may be necessary or expedient for the purposes of vesting in the Offeror, or such person or persons as they may direct, the Shares in respect of which such person or persons has/have accepted the Offer.

By accepting the Offer, the Independent Shareholders will sell their Shares to the Offeror that are (a) fully paid; (b) free from all liens, equities, mortgages, charges, encumbrances, rights of pre-emption and any other third party rights of any nature; and (c) together with all rights, benefits and entitlements attaching to them, including, without limitation, the right to receive and retain in full all dividends and other distributions (as applicable) which may be recommended, declared, made or paid on or after the date on which the Offer is made, being the date of despatch of this Composite Document. As at the Latest Practicable Date, the Company has not declared any dividend or distribution which remain unpaid and the Company had no intention to make, declare or pay any future dividend/distribution before the close of the Offer. In the event of any declaration of dividend/distribution by the Company, such dividend/distribution will not be used to set off against the Offer Price (or any part thereof) payable to the Independent Shareholders under the Offer.

The Offer is made available to all Independent Shareholders, including those who are residents outside Hong Kong. The availability of the Offer to persons not residing in Hong Kong may be affected by the laws of the relevant overseas jurisdictions. The making of the Offer to persons with a registered address in jurisdictions outside Hong Kong may be prohibited or limited by the laws or regulations of the relevant jurisdictions. The Overseas Shareholders who are citizens, residents or nationals of a jurisdiction outside Hong Kong should observe any applicable legal or regulatory requirements and, where necessary, seek legal advice.

Persons who are residents, citizens or nationals outside Hong Kong should inform themselves about and observe, at their own responsibilities, any applicable laws, regulations, requirements and restrictions in their own jurisdictions in connection with the acceptance of the Offer, including the obtaining of any governmental, exchange control or other consents which may be required, or the compliance with the other necessary formalities and the payment of any issue, transfer or other fares due from such persons in such jurisdictions.

Any acceptance by the Independent Shareholders and the beneficial owners of the Shares who are citizens, residents or nationals of a jurisdiction outside Hong Kong will be deemed to constitute a representation and warranty from such persons to the Offeror that the local laws and requirements have been complied with. Independent Shareholders should consult their respective professional advisers if in doubt. Independent Shareholders who are in doubt as to the action they should take should consult a licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional advisers.

- (f) Acceptance of the Offer by any nominee will be deemed to constitute a warranty by such nominee to the Offeror that the number of Shares in respect of which as indicated in the Form of Acceptance is the aggregate number of Shares held by such nominee for such beneficial owner who is accepting the Offer.
- (g) Reference to the Offer in this Composite Document and in the Form of Acceptance shall include any extension and/or revision thereof.
- (h) The English text of this Composite Document and the Form of Acceptance shall prevail over their respective Chinese text for the purpose of interpretation.

- (i) In making their decisions, the Independent Shareholders must rely on their own examination of the Offeror, the Group and the terms of the Offer, including the merits and risks involved. The contents of this Composite Document, including any general advice or recommendation contained herein together with the Form of Acceptance, shall not be construed as any legal or business advice on the part of the Offeror, parties acting in concert with the Offeror, the Company, the Vendor, the Guarantor, the Independent Financial Adviser, Dakin Securities Limited, Dakin Capital Limited, the Registrar or (as the case may be) any of their respective ultimate beneficial owners, directors, officers, agents or associates or any other persons involved in the Offer. The Independent Shareholders should consult their own professional advisers for professional advice.
- (j) The Offer is made in accordance with the Takeovers Code.

1. SUMMARY OF FINANCIAL INFORMATION OF THE GROUP

The following is a summary of the audited consolidated financial results of the Group for each of the three years ended 31 December 2019, 31 December 2020 and 31 December 2021 as extracted from the annual report of the Company for the year ended 31 December 2020 (the “**Annual Report 2020**”), the annual report of the Company for the year ended 31 December 2021 (the “**Annual Report 2021**”) and the interim results announcement of the Company for the six months ended 30 June 2022 (the “**Interim Results 2022**”).

	For the year ended 31 December			For the six months ended 30 June	
	2019	2020	2021	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Audited)	(Audited)	(Audited)	(Unaudited)	(Unaudited)
Revenue	203,443	198,478	165,942	83,059	80,386
Cost of sales	(136,539)	(124,621)	(124,748)	(56,009)	(76,080)
Gross Profit	66,904	73,857	39,194	27,050	4,306
Other income	744	5,328	1,944	1,069	4,604
Other (losses)/gains, net	(6)	(1,584)	(3,689)	468	2,469
Selling and distribution expenses	(2,324)	(2,278)	(2,416)	(1,299)	(911)
Administrative expenses	(14,335)	(22,089)	(10,333)	(4,387)	(6,475)
Net impairment losses on financial assets and contract assets	–	(425)	(1,974)	(243)	(23)
Operating profit	50,983	52,809	22,726	22,658	3,970
Finance income	131	388	1,477	405	1,288
Finance costs	(2,039)	(604)	(123)	(118)	(5)
Finance (costs)/income, net	(1,908)	(216)	1,354	287	1,283
Profit before income tax	49,075	52,593	24,080	22,945	5,253
Income tax expense	(7,224)	(8,772)	(2,898)	(3,053)	(356)
Profit for the year attributable to:					
Owners of the Company	41,851	43,821	21,182	19,892	4,897
Non-controlling interests	–	–	–	–	–
Other comprehensive income					
<i>Item that will not be reclassified to profit or loss</i>					
Currency translation differences	2	–	(19)	–	123
Total comprehensive income for the year attributable to:					
Owners of the Company	41,853	43,821	21,163	19,892	5,020
Non-controlling interests	–	–	–	–	–
Earnings per share attributable to owners of the Company					
Basic and diluted (RMB cents)	4.84	4.64	1.70	1.61	0.39

No dividend has been declared nor paid by the Group for the three years ended 31 December 2019, 31 December 2020 and 31 December 2021 and the six months ended 30 June 2022.

The Group did not have any item of any income or expenses which was material for each of the three years ended 31 December 2019, 31 December 2020 and 31 December 2021 and each of the six months ended 30 June 2021 and 30 June 2022.

The following is a summary of the audited consolidated financial position of the Group as at 31 December 2019, 31 December 2020 and 31 December 2021 as extracted from the Annual Report 2020 and the Annual Report 2021 and the unaudited consolidated financial position of the Group as at 30 June 2022 as extracted from the Interim Results 2022.

	As at 31 December			As at
	2019	2020	2021	30 June
	RMB'000	RMB'000	RMB'000	RMB'000
	(Audited)	(Audited)	(Audited)	(Unaudited)
Non-current assets				
Properties, plant and equipment	146,833	146,651	147,476	147,431
Right-of-use asset	2,804	2,722	2,640	2,598
Investment property	382	341	308	294
Intangible assets	833	645	1,236	990
Prepayments	223	277	7,807	440
	151,075	150,636	159,467	151,753
Current assets				
Inventories	9,922	9,272	9,737	11,257
Contract assets	16,585	7,556	8,320	6,050
Trade and bills receivables	15,694	13,060	18,774	16,051
Prepayments and other receivables	2,527	10,013	1,623	1,008
Amounts due from shareholders	140	—	—	—
Cash and cash equivalents	38,480	109,483	182,294	195,512
	83,348	149,384	220,748	229,878
Total assets	234,423	300,020	380,215	381,631
Current liabilities				
Trade payables	14,058	10,706	20,221	17,104
Other payables and accruals	12,914	37,859	17,242	17,041
Amounts due to shareholders	5,000	—	—	—
Contract liabilities	1,307	3,440	588	545
Current income tax liabilities	6,851	10,185	5,445	5,245
Bank borrowings	13,000	13,000	—	—
	53,130	75,190	43,496	39,935

	As at 31 December			As at 30 June
	2019	2020	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000
	(Audited)	(Audited)	(Audited)	(Unaudited)
Net current assets	30,218	74,194	177,252	189,943
Total assets less current liabilities	181,293	224,830	336,719	341,696
Non-current liabilities				
Other payables	1,592	1,533	1,478	1,453
Deferred tax liabilities	433	346	535	517
	2,025	1,879	2,013	1,970
Net assets	179,268	222,951	334,706	339,726
Equity attributable to owners of the Company				
Share capital	138	—*	10,511	10,511
Reserves	179,130	222,951	324,195	329,215
Total equity	179,268	222,951	334,706	339,726

* The balance was rounded to the nearest thousand

Opinion by the auditor of the Company in respect of the Group's audited consolidated financial statements for each of the three years ended 31 December 2019, 31 December 2020 and 31 December 2021

The auditors' report issued by PricewaterhouseCoopers in respect of the Group's audited consolidated financial statements for the each of the three years ended 31 December 2019, 31 December 2020 and 31 December 2021 did not contain any modified opinion, emphasis of matter or material uncertainty related to going concern.

2. CONSOLIDATED FINANCIAL STATEMENTS

The Company is required to set out or refer to in this Composite Document of the consolidated statement of financial position, consolidated statement of cash flows and any other primary statement as shown in the audited consolidated financial statements of the Group, together with significant accounting policies and any points from the notes to the relevant published financial statements which are of major relevance to the appreciation of the above financial information.

The unaudited consolidated financial statements of the Group for the six months ended 30 June 2022 (the “**Interim Financial Statements 2022**”) are set out from page 2 to page 16 in the interim results announcement of the Company for the six months ended 30 June 2022, which was published on 28 July 2022. The interim results announcement of the Company for the six months ended 30 June 2022 was posted on the websites of the Stock Exchange (<http://www.hkexnews.hk>), and is accessible via the following hyperlinks:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0728/2022072801192.pdf>

The audited consolidated financial statements of the Group for the year ended 31 December 2021 (the “**Financial Statements 2021**”) are set out from page 102 to page 176 in the annual report of the Company for the year ended 31 December 2021, which was published on 7 April 2022. The annual report of the Company for the year ended 31 December 2021 was posted on the websites of the Stock Exchange (<http://www.hkexnews.hk>), and is accessible via the following hyperlinks:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0407/2022040700562.pdf>

The audited consolidated financial statements of the Group for the year ended 31 December 2020 (the “**Financial Statements 2020**”) are set out from page 98 to page 180 in the annual report of the Company for the year ended 31 December 2020, which was published on 22 April 2021. The annual report of the Company for the year ended 31 December 2020 was posted on the website of the of the Stock Exchange (<http://www.hkexnews.hk>) and is accessible via the following hyperlinks:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0422/2021042200021.pdf>

The audited consolidated financial statements of the Group for the year ended 31 December 2019 (the “**Financial Statements 2019**”) are set out from page I-4 to page I-60 in the prospectus of the Company, which was published on 28 December 2020. The prospectus of the Company was posted on the website of the of the Stock Exchange (<http://www.hkexnews.hk>) and is accessible via the following hyperlinks:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2020/1228/2020122800063.pdf>

The Financial Statements 2019, the Financial Statements 2020, the Financial Statements 2021 and the Interim Financial Statements 2022 (but not any other part of the prospectus of the Company, the annual reports of the Company for the years ended 31 December 2020 and 2021 and the interim results announcement of the Company for the six months ended 30 June 2022 in which they respectively appear) are incorporated by reference into this Composite Document and form part of this Composite Document.

3. INDEBTEDNESS**Interest-bearing borrowings, bank overdraft and pledge of assets**

At the close of business on 30 June 2022, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this Composite Document, the Group did not have any interest-bearing bank borrowings, bank overdrafts and pledge of assets.

Lease liabilities

As at 30 June 2022, The Group did not have any lease liabilities.

Contingent liabilities

As at 30 June 2022, the Group had no material contingent liability.

Apart from the intra-group liabilities, at the close of business on 30 June 2022, the Group did not have any outstanding mortgages, charges, debentures, loan capital, bank overdrafts, loans or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptance (other than under normal trade bills) or acceptance credits, debt securities (whether issued and outstanding or authorised or otherwise created but unissued), guarantees or other material contingent liabilities.

The Directors confirmed that there had been no material changes in the indebtedness and contingent liabilities of the Group since 30 June 2022, up to and including the Latest Practicable Date.

4. MATERIAL CHANGE

“The Directors confirm that, save and except as disclosed below, there has been no material change in the financial or trading position or outlook of the Group since 31 December 2021, (being the date which the latest published audited consolidated financial statements of the Group were made up) up to and including the Latest Practicable Date.”

- (i) as disclosed in the interim results announcement of the Company for the six months ended 30 June 2022, the gross profit of the Group decreased from approximately RMB27.1 million for the six months ended 30 June 2021 to approximately RMB4.3 million for the six months ended 30 June 2022, representing a decrease of approximately RMB22.7 million or 84.1% as compared to that for the six months ended 30 June 2021. The revenue of the Group’s dyeing services and lace manufacturing substantially decreased for the six months ended 30 June 2022, while the manufacturing overhead and labour cost, being the major components of the cost of sales, were relatively less variable to the revenue and did not decrease in proportionally to the decrease in the revenue. In this connection, the gross profit margin of the Group’s dyeing services and lace manufacturing decreased from approximately 30.2% and 36.8% for the six months ended 30 June 2021 to approximately 1.2% and 6.9% for the six months ended 30 June 2022 respectively. The Group’s sales of shoes segment

contributed gross profit of approximately RMB3.0 million for the six months ended 30 June 2022, being the Group's new segment commenced since second half of 2021. The above factors result in the decrease in the gross profit of the Group for the six months ended 30 June 2022;

- (ii) as disclosed in the interim results announcement of the Company for the six months ended 30 June 2022, the other income increased from approximately RMB1.1 million for the six months ended 30 June 2021 to approximately RMB4.6 million for the six months ended 30 June 2022, representing an increase of approximately RMB3.5 million or 330.7% as compared to that for the six months ended 30 June 2021. Such increase in other income was mainly due to the recognition of one-off government grant for the six months ended 30 June 2022;
- (iii) as disclosed in the interim results announcement of the Company for the six months ended 30 June 2022, the other gains increased from approximately RMB0.5 million for the six months ended 30 June 2021 to approximately RMB2.5 million for the six months ended 30 June 2022, representing an increase of approximately RMB2.0 million or 427.6% as compared to that for the six months ended 30 June 2021. Such increase in other gains was mainly due to the increase in gain from exchange differences for the six months ended 30 June 2022; and
- (iv) as disclosed in the interim results announcement of the Company for the six months ended 30 June 2022, the profit for the year attributable to owners of the Company decreased from approximately RMB19.9 million for the six months ended 30 June 2021 to approximately RMB4.9 million for the six months ended 30 June 2022, representing a decrease of approximately RMB15.0 million or 75.4% as compared to that for the six months ended 30 June 2021. Such decrease in the profit for the year attributable to owners of the Company was mainly due to (i) the significant decrease in gross profit as mentioned above; and (ii) the increase in administrative expenses of approximately RMB2.1 million, partially offset by the increase in other income and other gains of approximately RMB3.5 million and RMB2.0 million respectively as mentioned above.

1. RESPONSIBILITY STATEMENTS

This Composite Document includes particulars given in compliance with the Takeovers Code for the purpose of providing information to the Independent Shareholders with regard to the Company and the Offer.

At as the Latest Practicable Date, the Board comprised Mr. Lin Minqiang, Mr. Lin Chaowei, Mr. Lin Chaowen, Mr. Lin Bingzhong, Mr. Wei Cunzhuo and Ms. Lin Lili as the executive Directors; and Mr. Sheng Zijiu, Mr. Chow Kit Ting, Mr. Yip Koon Shing, and Mr. Wong Chun Sek Edmund as the independent non-executive Directors. The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this Composite Document (other than the information relating to the Offeror and the sole director of the Offeror) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed (other than those expressed by the sole director of the Offeror) in this Composite Document 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.

2. SHARE CAPITAL

The authorised and issued share capital of the Company of HK\$0.01 each as at the Latest Practicable Date were as follows:

<i>Authorised</i>	<i>HK\$</i>
<u>10,000,000,000 Shares</u>	<u>100,000,000</u>
<i>Issued</i>	
<u>1,260,000,000 Shares</u>	<u>12,600,000</u>

All the Shares currently in issue rank pari passu in all respects with each other, including, in particular, as to rights in respect of capital, dividends and voting.

As at the Latest Practicable Date, no new Shares had been issued by the Company since 31 December 2021 (being the date to which its latest published audited financial statements were prepared).

As at the Latest Practicable Date, there were no outstanding warrants or options or other securities carrying rights of conversion into or exchange or subscription for the Shares or derivatives issued by the Company.

3. MARKET PRICES

The table below sets out the closing price of the Shares as quoted on the Stock Exchange on (1) the last business day of each of the calendar months during the Relevant Period, (2) the Last Trading Day, and (3) the Latest Practicable Date:

Date	Closing price of each Share (HK\$)
31 December 2021	0.60
31 January 2022	0.57
28 February 2022	0.62
31 March 2022	0.65
29 April 2022	0.60
31 May 2022	0.75
16 June 2022 (Last Trading Day)	0.75
30 June 2022	0.79
29 July 2022	1.07
9 August 2022 (Latest Practicable Date)	0.94

During the Relevant Period, the highest and the lowest closing prices of the Shares as quoted on the Stock Exchange were HK\$1.39 per Share on 15 July 2022 and HK\$0.395 per Share on 15 March 2022.

4. DISCLOSURE OF INTERESTS

(a) Interests and short positions of the Directors and chief executive in the Company

As at the Latest Practicable Date, save as disclosed below, none of the Directors or the chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules; or (iv) which were required to be disclosed under the Takeovers Code.

Name of Directors	Capacity/Nature of interest	Number of Shares held/ interested (Note 1)	Percentage of shareholding
Mr. Lin Minqiang	Interest in a controlled corporation (Note 2) Interest held jointly with other persons (Note 3)	126,000,000 (L)	10.0%
Mr. Lin Bingzhong	Interest held jointly with other persons (Note 3)	126,000,000 (L)	10.0%
Mr. Lin Chaowei	Interest held jointly with other persons (Note 3)	126,000,000 (L)	10.0%
Mr. Lin Chaowen	Interest held jointly with other persons (Note 3)	126,000,000 (L)	10.0%

Notes:

1. The letter “L” denotes the person’s long position in the Shares.
2. The Vendor is beneficially owned by Mr. Lin Minqiang as to 60%. By virtue of the SFO, Mr. Lin Minqiang is deemed to be interested in the Shares held by the Vendor.
3. On 31 December 2019, Mr. Lin Minqiang, Mr. Lin Bingzhong, Mr. Lin Chaoji, Mr. Lin Chaowei and Mr. Lin Chaowen entered into an acting in concert agreement to acknowledge and confirm (among other things) that they are parties acting in concert and that to continue to act in the same manner in the Group after listing. As such, by virtue of the SFO, Mr. Lin Minqiang, Mr. Lin Bingzhong, Mr. Lin Chaowei and Mr. Lin Chaowen are deemed to be interested in all the Shares held by the Vendor.

(b) Disclosure of interests of substantial Shareholders

As at the Latest Practicable Date, so far as is known to the Directors, the following persons (not being a Director or chief executive of the Company) had an interest or a short position in the Shares or the underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept under section 336 of the SFO or as otherwise notified to the Company and the Stock Exchange:

Name of Directors	Capacity/Nature of interest	Number of Shares held/ interested	Percentage of shareholding
The Offeror	Beneficial owner (<i>Notes 1&2</i>)	819,000,000 (L)	65.0%
Mr. Tsoi	Interest in controlled corporation (<i>Notes 1&2</i>)	819,000,000 (L)	65.0%
	Beneficial owner (<i>Notes 1&2</i>)	<u>25,000,000 (L)</u>	<u>1.98%</u>
	Sub-total	844,000,000 (L)	66.98%
Ms. Wu Chou Har	Interest of spouse (<i>Note 3</i>)	844,000,000 (L)	66.98%
The Vendor	Beneficial owner (<i>Note 4</i>)	126,000,000 (L)	10.0%
Mr. Lin Chaoji	Interest held jointly with other persons (<i>Note 4</i>)	126,000,000 (L)	10.0%
Ms. Zheng Xiuqin	Interest of spouse (<i>Note 5</i>)	126,000,000 (L)	10.0%
Ms. Lin Yueyun	Interest of spouse (<i>Note 6</i>)	126,000,000 (L)	10.0%
Ms. Jiang Yanyun	Interest of spouse (<i>Note 7</i>)	126,000,000 (L)	10.0%
Ms. Lin Yunzhen	Interest of spouse (<i>Note 8</i>)	126,000,000 (L)	10.0%
Ms. Lin Aimei	Interest of spouse (<i>Note 9</i>)	126,000,000 (L)	10.0%

Notes:

1. The Offeror is wholly-owned by Mr. Tsoi. Therefore, Mr. Tsoi is deemed to be interested in all Shares held by the Offeror under the SFO.
2. As at the Latest Practicable Date, Mr. Tsoi (i) directly and beneficially holds 25,000,000 (or 1.98%) of the Shares of the Company; and (ii) beneficially owns 100% of the issued shares of the Offeror, which in turn holds 65.0% of the Company. Mr. Tsoi is the sole director of the Offeror.
3. Ms. Wu Chou Har is the spouse of Mr. Tsoi. Therefore, Ms. Wu Chou Har is deemed to be, or taken to be, interested in the shares which Mr. Tsoi is interested in for the purpose of the SFO.
4. On 31 December 2019, Mr. Lin Minqiang, Mr. Lin Bingzhong, Mr. Lin Chaoji, Mr. Lin Chaowei and Mr. Lin Chaowen entered into an acting in concert agreement to acknowledge and confirm (among other things) that they are parties acting in concert and that to continue to act in the same manner in the Group after listing. As such, by virtue of the SFO, Mr. Lin Chaoji is deemed to be interested in all the Shares held by the Vendor.
5. Ms. Zheng Xiuqin is the spouse of Mr. Lin Chaoji. Therefore, Ms. Zheng Xiuqin is deemed to be, or taken to be, interested in the Shares which Mr. Lin Chaoji is interested in for the purposes of the SFO.
6. Ms. Lin Yueyun is the spouse of Mr. Lin Minqiang. Therefore, Ms. Lin Yueyun is deemed to be, or taken to be, interested in the Shares which Mr. Lin Minqiang is interested in for the purposes of the SFO.
7. Ms. Jiang Yanyun is the spouse of Mr. Lin Bingzhong. Therefore, Ms. Jiang Yanyun is deemed to be, or taken to be, interested in the Shares which Mr. Lin Bingzhong is interested in for the purposes of the SFO.
8. Ms. Lin Yunzhen is the spouse of Mr. Lin Chaowei. Therefore, Ms. Lin Yunzhen is deemed to be, or taken to be, interested in the Shares which Mr. Lin Chaowei is interested in for the purposes of the SFO.
9. Ms. Lin Aimei is the spouse of Mr. Lin Chaowen. Therefore, Ms. Lin Aimei is deemed to be, or taken to be, interested in the Shares which Mr. Lin Chaowen is interested in for the purposes of the SFO.

5. DEALINGS AND INTERESTS IN SECURITIES OF THE COMPANY

- (a) during the Relevant Period, save for the Sale Shares disposed of by the Vendor and acquired by the Offeror pursuant to the Sale and Purchase Agreement, the Directors did not have any dealing in any Shares, warrants, options, derivatives and securities carrying conversion or subscription rights into Shares;
- (b) during the Relevant Period, none of the Company nor the Directors had any dealings in the shares, warrants, options, derivatives and securities carrying conversion or subscription rights into shares of the Offeror;
- (c) as at the Latest Practicable Date, the Company did not own any shares, convertible securities, warrants, options, or derivatives in respect of any shares in the Offeror;
- (d) as at the Latest Practicable Date, none of the Directors had any interest in any shares, convertible securities, warrants, options, or derivatives in respect of any shares in the Offeror;

- (e) as at Latest Practicable Date, none of the subsidiaries of the Company or the pension funds of the Company or any member of the Group or any persons who is presumed to be acting in concert with the Company by virtue of class (5) of the definition of “acting in concert” under the Takeovers Code or who is an associate of the Company by virtue of class (2) of the definition of “associate” under the Takeovers Code (excluding exempt principal traders and exempt fund managers) owned or controlled any securities, convertible securities, warrants, options or derivatives in respect of any Shares or securities of the Company;
- (f) during the Offer Period and up to the Latest Practicable Date, none of the subsidiaries of the Company or the pension funds of the Company or any member of the Group or any persons who is presumed to be acting in concert with the Company by virtue of class (5) of the definition of “acting in concert” under the Takeovers Code or who is an associate of the Company by virtue of class (2) of the definition of “associate” under the Takeovers Code (excluding exempt principal traders and exempt fund managers) had any dealings in any Shares or any securities, convertible securities, warrants, options or derivatives in respect of any Shares or securities of the Company;
- (g) save for the Offeror who has executed the Sale and Purchase Agreement, no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or with any person who is presumed to be acting in concert with the Company by virtue of classes (1), (2), (3) and (5) of the definition of “acting in concert” under the Takeovers Code or who is an associate of the Company by virtue of classes (2), (3) and (4) of the definition of “associate” under the Takeovers Code and no person who had such an arrangement had any dealings in any Shares, warrants, options, derivatives and securities carrying conversion or subscription rights into Shares during the Offer Period and up to the Latest Practicable Date;
- (h) during the Offer Period and up to the Latest Practicable Date, no fund managers connected with the Company (other than exempt fund managers) who managed funds on a discretionary basis had any dealings in any Shares, warrants, options, derivatives and securities carrying conversion or subscription rights into Shares;
- (i) as at the Latest Practicable Date, no fund manager connected with the Company (other than exempt fund managers) who managed funds on a discretionary basis had any interest in any Shares or any other convertible securities, warrants, options or derivatives in respect of any Shares;
- (j) as at the Latest Practicable Date, none of the Company or the Directors had borrowed or lent any Shares, convertible securities, warrants, options or derivatives in respect of any Shares;
- (k) as at the Latest Practicable Date, none of the Directors held any beneficial shareholdings in the Company which would otherwise entitle them to accept or reject the Offers; and
- (l) as at the Latest Practicable Date, there is no understanding, arrangement or agreement or special deal between any Shareholders on the one hand, and the Company, its subsidiaries or associated companies on the other hand.

6. ARRANGEMENTS AFFECTING DIRECTORS

As at the Latest Practicable Date:

- (a) no benefit (save for statutory compensation required under applicable laws) was or would be given to any Director as compensation for loss of office or otherwise in connection with the Offers;
- (b) there was no agreement or arrangement between any Director and any other person which is conditional on or dependent upon the outcome of the Offer or otherwise connected with the Offer; and
- (c) save for the Sale and Purchase Agreement, no material contracts had been entered into by the Offeror or any party acting in concert with it in which any Directors had any a material personal interest.

7. LITIGATION

As at the Latest Practicable Date, none of the Company or any of its subsidiaries or any of its associates was engaged in any litigation or claims of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened by or against any member of the Group.

8. MATERIAL CONTRACTS

As at the Latest Practicable Date, save as disclosed below, there was no material contract (not being contracts entered into in the ordinary course of business carried on or intended to be carried on by the Group) entered into by the Group within the two years before the commencement of the Offer Period and ending on the Latest Practicable Date:

- (a) the deed of indemnity dated 16 December 2020 given by Mr. Lin Minqiang, Mr. Lin Bingzhong, Mr. Lin Chaoji, Mr. Lin Chaowei, Mr. Lin Chaowen and the Vendor in favour of the Company (for itself and as trustee for each of the subsidiaries) regarding certain indemnities, among other things, (1) any tax liability which might be payable by any member of the Group (i) in respect of any income, profits or gains earned, accrued or received up to the date of listing; or (ii) in respect of or resulting from any act, omission or event occurring up to the date of listing; and (2) any action, claims, losses, charges, penalties which any member of the Group may incur or suffer as a result of or in connection with any failure to comply with relevant laws and regulations up to the date of listing, and the reasonable costs and expenses incurred in connection with the actions, claims, legal or arbitration proceedings related thereto, further details of which are disclosed in the prospectus of the Company dated 28 December 2020;

- (b) the public offer underwriting agreement dated 22 December 2020 entered into, amongst others, the Company and the public offer underwriters (i.e. Dakin Securities Limited, BOCOM International Securities Limited, CCB International Capital Limited, I Win Securities Limited, Red Eagle Securities Limited and Yuzhou Financial Holdings Limited), relating to the issue and offer of the Shares and amongst others, the public offer underwriters have severally agreed to subscribe or procure subscribers for their respective applicable proportions of the public offer shares being offered in the listing which are not taken up under the public offer on the terms and conditions of the prospectus and the public offer underwriting agreement, further details of which are disclosed in the prospectus of the Company dated 28 December 2020;
- (c) the cornerstone investment agreement dated 22 December 2020 entered into, amongst others, the Company and Cheng Hung Ping pursuant to which Cheng Hung Ping agreed to acquire certain number of Shares which may be purchased with HK\$20 million at the then offer price of the listing, further details of which are disclosed in the prospectus of the Company dated 28 December 2020;
- (d) the cornerstone investment agreement dated 22 December 2020 entered into, amongst others, the Company and Tam Yuk Ching Jenny pursuant to which Tam Yuk Ching Jenny agreed to acquire certain number of Shares which may be purchased with HK\$10 million at the then offer price of the listing, further details of which are disclosed in the prospectus of the Company dated 28 December 2020; and
- (e) the cornerstone investment agreement dated 22 December 2020 entered into, amongst others, the Company and Tsai Chuen Sui Robert pursuant to which Tsai Chuen Sui Robert agreed to acquire certain number of Shares which may be purchased with HK\$10 million at the then offer price of the listing, further details of which are disclosed in the prospectus of the Company dated 28 December 2020.

9. EXPERT AND CONSENT

The following is the qualifications of the expert which has given opinions or advices which are contained or referred to in this Composite Document:

Octal Capital	Octal Capital Limited, a corporation licensed under the SFO to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities, being the Independent Financial Adviser to the Independent Board Committee in respect of the Offer
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Octal Capital has given and has not withdrawn its written consent to the issue of this Composite Document with the inclusion of the text of its letter and/or report and the references to its name in the form and context in which it appears herein.

10. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any service contracts with the Company or any of its subsidiaries or associated companies in force which (a) (including both continuous and fixed term contracts) have been entered into or amended with during the Relevant Period; (b) were continuous contracts with a notice period of 12 months or more; or (c) were fixed term contracts with more than 12 months to run irrespective of the notice period.

11. MISCELLANEOUS

- (a) The registered office of the Company is situated at 71 Fort Street, P.O. Box 500, George Town, Grand Cayman, KY1-1106, Cayman Islands and its principal office in Hong Kong is situated at Unit 1705, 17/F, Strand 50, 50 Bonham Strand, Sheung Wan, Hong Kong.
- (b) As at the Latest Practicable Date, the Board comprised Mr. Lin Minqiang, Mr. Lin Chaowei, Mr. Lin Chaowen, Mr. Lin Bingzhong, Mr. Wei Cunzhuo and Ms. Lin Lili as the executive Directors; and Mr. Sheng Zijiu, Mr. Chow Kit Ting, Mr. Yip Koon Shing and Mr. Wong Chun Sek Edmund as the independent non-executive Directors.
- (c) The registered office of Independent Financial Adviser, Octal Capital Limited, is situated at 801-805, 8th Floor, Nan Fung Tower, 88 Connaught Road, Hong Kong.
- (d) The English text of this Composite Document shall prevail over their respective Chinese text in case of inconsistency.

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection on (i) the websites of the SFC (<http://www.sfc.hk>) and the Company (www.ds-lace.com); and (ii) at the head office and principal place of business of the Company in Hong Kong at Unit 1705, 17/F, Strand 50, 50 Bonham Strand, Sheung Wan, Hong Kong during normal business hours from 9:00 a.m. to 5:00 p.m., Monday to Friday (except public holidays) from the date of this Composite Document up to and including the Closing Date:

- (a) the amended and restated memorandum and articles of association of the Company;
- (b) the annual reports of the Company for each of the years ended 31 December 2020 and 2021;
- (c) the interim results announcement of the Company for the six months ended 30 June 2022;
- (d) the material contracts as referred to in the paragraph headed “8. Material Contracts” in this Appendix III “General Information of the Group”;
- (e) the letter from the Board, the text of which is set out in this Composite Document;
- (f) the letter from the Independent Board Committee, the text of which is set out in this Composite Document;
- (g) the letter from the Independent Financial Adviser, the text of which is set out in this Composite Document;
- (h) the written consent as referred to in the paragraph headed “9. Expert and Consent” in this Appendix III “General Information of the Group”; and
- (i) this Composite Document and the accompanying Form of Acceptance.

1. RESPONSIBILITY STATEMENT

The sole director of the Offeror accepts full responsibility for the accuracy of the information contained in this Composite Document (other than that relating to the Group) and confirms, having made all reasonable inquiries, that to the best of his knowledge, opinions expressed in this Composite Document (other than those expressed by the Directors) 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.

2. DEALINGS IN SECURITIES OF THE COMPANY

During the Relevant Period:

- (a) save for the Vendor who has disposed of the Sale Shares under the Sale and Purchase Agreement, no persons who have given irrevocable commitment to accept or reject the offer had dealt for value in any Shares, convertible securities, warrants or options of the Company or any derivatives in respect of such securities;
- (b) save for the Vendor who has disposed of the Sale Shares under the Sale and Purchase Agreement, no person who had such an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Offeror, or any person acting in concert with the Offeror had dealt for value in any Shares, convertible securities, warrants or options of the Company or any derivatives in respect of such securities;
- (c) none of the Offeror and parties acting in concert with it had dealt for value in any Shares, convertible securities, warrants or options of the Company or any derivatives in respect of such securities, save for the acquisition of the Sale Shares and the following transactions dealt on the Stock Exchange:

Transaction dealt by Mr. Cai Rongshou, being the elder brother of Mr. Tsoi:

Dealing date	Nature of dealing	Number of Shares purchased/(sold)	Price per Share (HK\$)
8/2/2022	Purchase	10,000	0.570
9/2/2022	Purchase	20,000	0.640
9/2/2022	Purchase	55,000	0.640
9/2/2022	Purchase	10,000	0.650
9/2/2022	Purchase	50,000	0.660
9/2/2022	Purchase	35,000	0.660
9/2/2022	Purchase	50,000	0.670
9/2/2022	Purchase	5,000	0.680
9/2/2022	Purchase	40,000	0.780

Dealing date	Nature of dealing	Number of Shares purchased/(sold)	Price per Share (HK\$)
9/2/2022	Purchase	10,000	0.670
9/2/2022	Purchase	40,000	0.670
9/2/2022	Purchase	50,000	0.690
9/2/2022	Purchase	55,000	0.700
9/2/2022	Purchase	10,000	0.770
9/2/2022	Purchase	10,000	0.780
9/2/2022	Purchase	10,000	0.700
9/2/2022	Purchase	20,000	0.710
9/2/2022	Purchase	10,000	0.720
9/2/2022	Purchase	5,000	0.730
9/2/2022	Purchase	5,000	0.740
9/2/2022	Purchase	5,000	0.750
9/2/2022	Purchase	45,000	0.770
9/2/2022	Purchase	10,000	0.780
9/2/2022	Purchase	50,000	0.750
9/2/2022	Purchase	50,000	0.760
9/2/2022	Purchase	5,000	0.770
9/2/2022	Purchase	15,000	0.780
9/2/2022	Purchase	5,000	0.790
15/3/2022	Purchase	10,000	0.400
15/3/2022	Purchase	10,000	0.400
15/3/2022	Purchase	5,000	0.335
15/3/2022	Purchase	100,000	0.395
15/3/2022	Purchase	25,000	0.375
15/3/2022	Purchase	15,000	0.375
15/3/2022	Purchase	5,000	0.320
15/3/2022	Purchase	60,000	0.320
15/3/2022	Purchase	35,000	0.320
15/3/2022	Purchase	35,000	0.385
15/3/2022	Purchase	100,000	0.400
15/3/2022	Purchase	100,000	0.325
15/3/2022	Purchase	20,000	0.340
15/3/2022	Purchase	80,000	0.340
15/3/2022	Purchase	45,000	0.400

Transaction dealt by Mr. Cai Rongcheng, being the younger brother of Mr. Tsoi:

Dealing date	Nature of dealing	Number of Shares purchased/(sold)	Price per Share (HK\$)
16/12/2021	Purchase	10,000	0.550
16/12/2021	Purchase	20,000	0.550
21/12/2021	Purchase	5,000	0.530
22/12/2021	Purchase	20,000	0.520
23/12/2021	Purchase	20,000	0.520
25/1/2022	Purchase	20,000	0.560
7/3/2022	Purchase	30,000	0.570
9/3/2022	Purchase	30,000	0.560
9/3/2022	Purchase	30,000	0.550
9/3/2022	Purchase	30,000	0.530
9/3/2022	Purchase	30,000	0.540
9/3/2022	Purchase	30,000	0.530
11/3/2022	Purchase	50,000	0.550
14/3/2022	Purchase	100,000	0.435
14/3/2022	Purchase	100,000	0.425
14/3/2022	Purchase	30,000	0.530
14/3/2022	Purchase	100,000	0.460
14/3/2022	Purchase	100,000	0.415
14/3/2022	Purchase	100,000	0.455
14/3/2022	Purchase	5,000	0.415
14/3/2022	Purchase	50,000	0.485
14/3/2022	Purchase	30,000	0.485

Transaction dealt by Ms. Tsoi Lam Ki, being the daughter of Mr. Tsoi:

Dealing date	Nature of dealing	Number of Shares purchased/(sold)	Price per Share (HK\$)
17/3/2022	Purchase	45,000	0.465

Transaction dealt by Ms. Tsoi Sui Ki, being the daughter of Mr. Tsoi:

Dealing date	Nature of dealing	Number of Shares purchased/(sold)	Price per Share (HK\$)
11/1/2022	Purchase	5,000	0.690
4/2/2022	Purchase	5,000	0.570
4/2/2022	Purchase	10,000	0.570
8/2/2022	Purchase	5,000	0.620
8/2/2022	Purchase	5,000	0.620
17/3/2022	Purchase	10,000	0.485
17/3/2022	Purchase	5,000	0.485
17/3/2022	Purchase	5,000	0.500
17/3/2022	Purchase	5,000	0.480

Transaction dealt by Mr. Tsoi Pok Yeung, being the son of Mr. Tsoi:

Dealing date	Nature of dealing	Number of Shares purchased/(sold)	Price per Share (HK\$)
16/3/2022	Purchase	10,000	0.450
16/3/2022	Purchase	5,000	0.450
17/3/2022	Purchase	5,000	0.465
8/4/2022	(Sold)	(90,000)	0.800
19/4/2022	Purchase	5,000	0.790
19/4/2022	Purchase	20,000	0.790

DISCLOSURE OF INTERESTS IN THE COMPANY OF THE OFFEROR AND ARRANGEMENTS IN CONNECTION WITH THE OFFER

The Offeror confirms that as at the Latest Practicable Date:

- (i) save for the aggregate of 884,905,000 Shares (including the Sale Shares) of which the Offeror and parties acting in concert with it are interested in immediately after Completion, none of the Offeror nor any person acting in concert with it owns or has control or direction over any voting rights or rights over the Shares or convertible securities, warrants, options of the Company or any derivatives in respect of such securities;
- (ii) save for the Vendor who has executed the Sale and Purchase Agreement and the Irrevocable Undertaking, no person had any arrangement of the kind referred to in the Note 8 to Rule 22 of the Takeovers Code with the Offeror or any person acting in concert with the Offeror;
- (iii) there is no agreement or arrangement to which the Offeror or any person acting in concert with it, is a party which relates to circumstances in which the Offeror may or may not invoke or seek to invoke a condition to the Offer;
- (iv) none of the Offeror and/or parties acting in concert with it has entered into any arrangement or contract in relation to any outstanding derivative in respect of securities in the Company nor has borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company;
- (v) save for the Irrevocable Undertaking, none of the Offeror nor any person acting in concert with it has received any irrevocable commitment to accept or reject the Offer or any irrevocable undertaking from any Shareholders not to sell or transfer (or cause the same to be done) or otherwise dispose of (or permit any such action to occur in respect of) any interest in any Shares held by he/she/it/them;
- (vi) other than the Consideration, there is no other consideration, compensation or benefits in whatever form paid or to be paid by the Offeror or any parties acting in concert with it to the Vendor or any party acting in concert with it in connection with the sale and purchase of the Sale Shares under the Sale and Purchase Agreement;
- (vii) there is no understanding, arrangement, agreement or special deal (as defined under Rule 25 of the Takeovers Code) between the Vendor and any parties acting in concert with it on one hand, and the Offeror or any parties acting in concert with it on the other hand;
- (viii) there is no understanding, arrangement or agreement or special deal (as defined under Rule 25 of the Takeover Code) between (i) any Shareholder; and (ii)(a) the Offeror and any parties acting in concert with it or (ii)(b) the Company, its subsidiaries or associated companies;
- (ix) there is no agreement, arrangement or understanding that any securities acquired in pursuance of the Offer would be transferred, charged or pledged to any other person; and

- (x) save for the Sale and Purchase Agreement and the Irrevocable Undertaking there is no agreement, arrangement or understanding (including any compensation arrangement) between the Offeror or any person acting in concert with it and any of the Directors, recent directors of the Company, the Shareholders or recent shareholders of the Company having any connection with or dependence upon the Offer.

3. QUALIFICATIONS AND CONSENTS OF EXPERT

In addition to those listed in paragraph 9 of Appendix III “General Information of the Group” to this Composite Document, the following is the qualification of the expert who has given its opinion and advice which are contained in this Composite Document:

Name	Qualification
Dakin Capital Limited	A corporation licensed to carry out type 6 (advising on corporate finance) regulated activity under the SFO, being the financial adviser to the Offeror in respect of the Offer

The above expert has given and has not withdrawn its written consent to the issue of this Composite Document with the inclusion of the text of its letter, advice and/or references to its name, in the form and context in which it appears herein.

4. MISCELLANEOUS

- a. The Offeror is beneficially and wholly owned by Mr. Tsoi, who is the ultimate beneficial owner and the sole director of the Offeror
- b. The registered address of the Offeror is situated at Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands
- c. The correspondence address of the Offeror in Hong Kong is situated at Unit 2606, 26/F, AIA Tower, 183 Electric Road, North Point, Hong Kong
- d. The correspondence address of Mr. Tsoi is situated at Unit 2606, 26/F, AIA Tower, 183 Electric Road, North Point, Hong Kong
- e. The main business address of Dakin Capital Limited is situated at Suite 3509, 35/F, Tower 2, Lippo Centre, 89 Queensway, Admiralty, Hong Kong
- f. The main business address of Dakin Securities Limited is situated at Suite 3509, 35/F, Tower 2, Lippo Centre, 89 Queensway, Admiralty, Hong Kong
- g. In case of inconsistency, the English text of this Composite Document and the Form of Acceptance shall prevail over the Chinese text

5. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection on (i) the websites of the SFC (<http://www.sfc.hk>) and the Company (www.ds-lace.com); and (ii) at the head office and principal place of business of the Company in Hong Kong at Unit 1705, 17/F, Strand 50, 50 Bonham Strand, Sheung Wan, Hong Kong during normal business hours from 9:00 a.m. to 5:00 p.m., Monday to Friday (except public holidays) from the date of this Composite Document up to and including the Closing Date:

- a. the memorandum and articles of association of the Offeror;
- b. the letter from Dakin Capital Limited, the text of which is set out on pages 6 to 14 of this Composite Document;
- c. the written consent as referred to in the paragraph headed “3. Qualifications and Consents of Expert” in this Appendix IV “General Information of the Offeror”;
- d. the Sale and Purchase Agreement; and
- e. this Composite Document and the accompanying Form of Acceptance.
- f. the Irrevocable Undertaking