
THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

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

Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this Composite Document, make no representation as to its 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.

This Composite Document should be read in conjunction with the accompanying Form(s) of Acceptance, the content of which form part of the terms of the Offers. This Composite Document is not for release, publication or distribution in or into any jurisdiction where to do so would constitute a violation of the relevant laws of such jurisdiction.

Harmonic Ease Ventures Limited
(和安創投有限公司)

(Incorporated in the British Virgin Islands with limited liability)



Yongsheng Advanced Materials Company Limited

永盛新材料有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3608)

COMPOSITE OFFER AND RESPONSE DOCUMENT

PROPOSED PRIVATISATION BY WAY OF VOLUNTARY CONDITIONAL GENERAL CASH OFFERS BY HALCYON SECURITIES LIMITED ON BEHALF OF THE OFFEROR TO ACQUIRE ALL THE ISSUED SHARES IN THE COMPANY (OTHER THAN THOSE SHARES ALREADY OWNED AND/OR AGREED TO BE ACQUIRED BY THE OFFEROR AND/OR THE BVI PAC) AND TO CANCEL ALL OUTSTANDING SHARE OPTIONS

Financial Adviser to the Offeror



Halcyon Capital Limited

Independent Financial Adviser to the Independent Board Committee



SOMERLEY CAPITAL LIMITED

All capitalised terms used in this Composite Document have the meanings set out in the section headed "Definitions" on pages 5 to 11 of this Composite Document.

A letter from the Halcyon Securities containing, among other things, the principal terms of the Offers are set out on pages 13 to 15 of this Composite Document. A letter from the Board is set out on pages 26 to 37 of this Composite Document. A letter from the Independent Board Committee is set out on pages 38 and 39 of this Composite Document. A letter from the Independent Financial Adviser is set out on pages 40 to 81 of this Composite Document.

The procedures for acceptance of the Offers and other related information are set out in Appendix I to this Composite Document and in the accompanying Form(s) of Acceptance. Acceptances of the Share Offer must be received by the Registrar at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong by no later than 4:00 p.m. (Hong Kong time) on Thursday, 21 September 2023, and acceptances of the Option Offer must be received by the Company Secretary at Room B, 31/F, King Palace Plaza, No. 55 King Yip Street, Kwun Tong, Kowloon, Hong Kong by no later than 4:00 p.m. (Hong Kong time) on Thursday, 21 September 2023, or such later time and/or date as the Offeror may decide and announce with the consent of the Executive and in accordance with the Takeovers Code.

Persons including, without limitation, custodians, nominees and trustees, who would, or otherwise intend to, forward this Composite Document and/or the accompanying Form(s) of Acceptance to any jurisdiction outside of Hong Kong should read the sections headed "Important notices" and "Letter from Halcyon Securities – Overseas Shareholders and Optionholders" in this Composite Document and Appendix I to this Composite Document before taking any action. It is the responsibility of each such Shareholder and/or Optionholder who wishes to accept or take any other action in relation to the Share Offer and/or Option Offer (where applicable) 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, which may be required and the compliance with other necessary formalities or legal or regulatory requirements and the payment of any transfer or cancellation or other taxes and duties payable by such Shareholder and/or Optionholder (where applicable) in such relevant jurisdictions.

31 August 2023

TABLE OF CONTENT

	<i>PAGE</i>
IMPORTANT NOTICES	1
EXPECTED TIMETABLE	2
DEFINITIONS	5
LETTER FROM HALCYON SECURITIES	12
LETTER FROM THE BOARD	26
LETTER FROM THE INDEPENDENT BOARD COMMITTEE	38
LETTER FROM THE INDEPENDENT FINANCIAL ADVISER	40
APPENDIX I – FURTHER TERMS OF THE OFFERS	I-1
APPENDIX II – FINANCIAL INFORMATION OF THE GROUP	II-1
APPENDIX III – PROPERTY VALUATION OF THE GROUP	III-1
APPENDIX IV – GENERAL INFORMATION	IV-1
ACCOMPANYING DOCUMENT – FORM(S) OF ACCEPTANCE	

IMPORTANT NOTICES

NOTICE TO OVERSEAS SHAREHOLDERS AND OPTIONHOLDERS

The Offers are being made for the securities of a company incorporated in the Cayman Islands with limited liability and is subject to Hong Kong disclosure and other procedure requirements, which may be different from those in other jurisdictions. The making of the Share Offer to the Shareholders and the Option Offer to the Optionholders who are citizens, residents or nationals of jurisdictions outside Hong Kong may be subject to the laws of the relevant jurisdictions. Such Shareholders and/or Optionholders may be prohibited from accepting the Share Offer and/or Option Offer (where applicable) or affected by the laws of the relevant jurisdictions which may apply to the Share Offer and/or Option Offer (where applicable) and it is the responsibility of each such Shareholder and/or Optionholder who wishes to accept or take any other action in relation to the Share Offer and/or Option Offer (where applicable) 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, which may be required and the compliance with other necessary formalities or legal or regulatory requirements and the payment of any transfer or cancellation or other taxes and duties payable by such Shareholder and/or Optionholder (where applicable) in such relevant jurisdictions.

Any acceptance by any Shareholder and/or Optionholder (where applicable) will be deemed to constitute a representation and warranty from such Shareholder and/or Optionholder (where applicable) to the Offeror, the Company and their respective advisers (including Halcyon) that all applicable local laws and requirements have been complied with and that the Share Offer and/or Option Offer (where applicable) can be accepted by such Shareholder and/or Optionholder (where applicable) lawfully under the laws of the relevant jurisdictions. Shareholders and Optionholders should consult their professional advisers if in doubt.

For further information, please refer to the paragraph headed “9. Overseas Shareholders and Optionholders” in Appendix I to this Composite Document.

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 forward-looking statements included herein are made only as at the Latest Practicable Date. Subject to the requirements of the Takeovers Code and other applicable laws and regulations, each of the Offeror and the Company expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in their expectations with regard thereto or any change in events, conditions of circumstances on which any such statement is based.

EXPECTED TIMETABLE

The expected timetable set out below is indicative only and may be subject to change. Further announcement(s) will be jointly made by the Offeror and the Company as and when appropriate.

Unless otherwise expressly stated, references to times and dates in this Composite Document and the Form(s) of Acceptance are to Hong Kong times and dates.

2023

Despatch Date of this Composite Document and the accompanying Form(s) of Acceptance and the commencement of the Offers ^(Note 1) Thursday, 31 August

First Closing Date of the Offers ^(Note 2) Thursday, 21 September

Latest time and date for acceptance of the Offers on the First Closing Date ^(Notes 2 and 4) 4:00 p.m. on Thursday, 21 September

Announcement of the results of the Offers as at the First Closing Date or as to whether the Offers have been extended or become unconditional as at the First Closing Date, on the Stock Exchange's website and the Company's website ^(Note 2) no later than 7:00 p.m. on Thursday, 21 September

Latest date for posting of remittances for the amounts due in respect of valid acceptances received under the Offers on or before 4:00 p.m. on the First Closing Date (assuming the Offers become or are declared unconditional in all respects on such date) ^(Notes 3 and 4) Tuesday, 3 October

Latest time and date which the Offers can become or be declared unconditional as to acceptances ^(Note 5) 7:00 p.m. on Monday, 30 October

Latest time and date which the Offers can become or be declared unconditional in all respects ^(Note 6) Monday, 20 November

EXPECTED TIMETABLE

Notes:

- (1) The Offers are made on 31 August 2023, i.e. the date of this Composite Document and the accompanying Form(s) of Acceptance, and are capable of acceptance on and from that date until the First Closing Date. Acceptances of the Offers shall be irrevocable and not capable of being withdrawn, except in the circumstances set out in the paragraph head “6. Right of withdrawal” in Appendix I to this Composite Document.
- (2) In accordance with the Takeovers Code, the Offers must initially be opened for acceptance for at least 21 days from the date of this Composite Document, unless the Offeror revises or extends the Offers in accordance with the Takeovers Code. The Offers will be closed on the First Closing Date unless the Offeror revises or extends the Offers in accordance with the Takeovers Code. Announcement will be issued through the Stock Exchange’s and the Company’s websites by 7:00 p.m. on the First Closing Date stating the results of the Offers and whether the Offers have been extended, revised or expired. In the event that the Offeror decides the Offers will remain open, the announcement will state the next Closing Date or, if the Offers have become or been declared at that time unconditional as to acceptances, a statement that the Offers will remain open until further notice. At least 14 days’ notice by way of an announcement will be given before the Offers are closed to those holders of Offer Shares and Optionholders who have not accepted the Offers.

Beneficial owners of Shares who hold Shares in CCASS directly as an investor participant or indirectly via a broker or custodian participant and who wish to accept the Offers should note the timing requirements for causing instructions to be made to CCASS in accordance with the General Rules of CCASS and CCASS Operational Procedures and any deadlines set by HKSCC Nominees Limited.

- (3) Remittances in respect of the cash consideration payable for the Offer Shares tendered under the Share Offer, less seller’s ad valorem stamp duty payable, and the Offer Options tendered under the Option Offer respectively will be despatched to those Shareholders and/or Optionholders (as the case may be) by ordinary post at their own risk as soon as possible but in any event within seven (7) Business Days following the later of the date on which the Offers become, or are declared, unconditional and the date of receipt of a duly completed acceptance.

Pursuant to Rule 17 of the Takeovers Code, an acceptor shall be entitled to withdraw its/his/her acceptance after 21 days from the First Closing Date if the Offers have not then become unconditional as to acceptances. However, this entitlement to withdraw shall only be exercisable until such time as to the Offers become or are declared unconditional as to acceptances. For further details, please refer to the paragraph headed “6. Right of withdrawal” in Appendix I to this Composite Document.

- (4) If there is a tropical cyclone warning signal number 8 or above, or a black rainstorm warning, or post-super typhoon extreme conditions:
 - (a) in force in Hong Kong at any local time before 12:00 noon but no longer in force after 12:00 noon on the latest date for acceptance of the Offers and the latest date for posting of remittances for the amounts due under the Offers in respect of the valid acceptances, the latest time for acceptance of the Offers and the posting of the remittances will remain 4:00 p.m. on the same Business Day; or
 - (b) in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on the latest time for acceptance of the Offers and the latest time for posting of remittances for the amounts due to the Offers in respect of valid acceptances, the latest time for accepting of the Offers and the posting of remittances will be rescheduled to 4:00 p.m. on the following Business Day.

EXPECTED TIMETABLE

- (5) In accordance with the Takeovers Code, except with the consent of the Executive, the Offers may not become or be declared unconditional as to acceptances after 7:00 p.m. on the 60th day after the date on which this Composite Document was posted. Where a period laid down by the Takeovers Code ends on a day which is not a Business Day, the period is extended until the next Business Day. Accordingly, unless the Offers have previously become or are declared unconditional as to acceptance, the Offers will lapse after 7:00 p.m. on 30 October 2023, unless extended with the consent of the Executive and in accordance with the Takeovers Code.
- (6) In accordance with the Takeovers Code, except with the consent of the Executive, all conditions must be fulfilled or the Offers must lapse within 21 days of the First Closing Date or of the date the Offers become or are declared unconditional as to acceptances, whichever is later.

DEFINITIONS

In this Composite Document, the following expressions have the meanings respectively set opposite them, unless the context otherwise requires:

“acting in concert”	has the meaning ascribed to it under the Takeovers Code, and “persons acting in concert” and “concert parties” shall be construed accordingly
“Announcement”	the announcement dated 23 June 2023 and issued jointly by the Offeror and the Company pursuant to Rule 3.5 of the Takeovers Code in relation to the Offers
“Astute”	Astute Horizon Limited (睿景有限公司), a limited company incorporated in the British Virgin Islands which is owned by (i) Mr. Li, an executive Director; (ii) Ms. Li Chunyan, who is a daughter of Mr. Li, a director of Astute and one of the Offeror Concert Parties; and (iii) Mr. Li Wenhua, who is a nephew of Mr. Li, a director of Astute and one of the Offeror Concert Parties, as to approximately 90%, 5% and 5%, respectively, and is one of the Offeror Concert Parties
“Announcement Date”	23 June 2023, being the date of the Announcement
“associate”	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 transaction of business
“BVI PAC”	Ever Thrive and Astute
“Cayman Islands Companies Act”	the Companies Act, Cap. 22 (Act 3 of 1961, as consolidated and revised) of the Cayman Islands
“CCASS”	the Central Clearing and Settlement System established and operated by Hong Kong Securities Clearing Company Limited
“Closing Date”	the First Closing Date, or if the Offers are revised or extended, any subsequent closing date of the Offers as determined and announced by the Offeror, with the consent of the Executive, in accordance with the Takeovers Code

DEFINITIONS

“Company”	Yongsheng Advanced Materials Company Limited (永盛新材料有限公司), an exempted company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange
“Company Secretary”	the company secretary of the Company
“Composite Document”	this composite offer and response document, including each of the letters, statements, appendices and notices in it, as may be amended or supplemented from time to time
“Condition(s)”	the condition(s) of the Offers, as set out in the section headed “Letter from Halcyon Securities – Conditions of the Offers” in this Composite Document
“connected person”	has the meaning given to it under the Listing Rules
“controlling shareholder”	has the meaning given to it under the Listing Rules
“Despatch Date”	31 August 2023, being the date of despatch of this Composite Document to the Shareholders and Optionholders as required by the Takeovers Code
“Directors”	directors of the Company
“Disinterested Share(s)”	the Share(s), other than those held by the Offeror and the Offeror Concert Parties
“Ever Thrive”	Ever Thrive Global Limited (恒盛環球有限公司), a limited company incorporated in the British Virgin Islands and directly owned by Mr. Li and Ms. Li Chunyan, who is a daughter of Mr. Li, a director of Astute and one of the Offeror Concert Parties, as to approximately 95.7% and 4.3% respectively, and is one of the Offeror Concert Parties
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any delegate thereof
“External Financing”	external debt financing granted by the Lender to Ever Thrive in the principal amount of (i) RMB60 million (equivalent to approximately HK\$66 million); and (ii) US\$20 million (equivalent to approximately HK\$156 million)

DEFINITIONS

“First Closing Date”	21 September 2023, being the first closing date of the Offers, which is 21 days after the Despatch Date or any subsequent closing date(s) as may be determined and announced by the Offeror with the consent of the Executive in accordance with the Takeovers Code
“Form(s) of Acceptance”	collectively, the WHITE Form(s) of Acceptance and the PINK Form(s) of Acceptance in respect of the Share Offer and the Option Offer respectively
“Group”	the Company and its subsidiaries
“Halcyon”	Halcyon Capital and Halcyon Securities
“Halcyon Capital”	Halcyon Capital Limited, a licensed corporation 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 Offers
“Halcyon Securities”	Halcyon Securities Limited, a licensed corporation to carry out type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities) and type 9 (asset management) regulated activities under the SFO, which is the agent of the Offeror who is making the Offers for and on behalf of the Offeror
“HKSCC”	Hong Kong Securities Clearing Company Limited
“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 Company, which comprises all the independent non-executive Directors, namely Ms. Wong Wai Ling, Mr. He Chengying and Dr. Wang Huaping, established by the Board to make a recommendation to the Independent Shareholders and (as the case may be) the Optionholders in respect of, among others, the Offers

DEFINITIONS

“Independent Financial Adviser”	Somerley Capital Limited, a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO and the independent financial adviser to the Independent Board Committee, the Independent Shareholders and (as the case maybe) the Optionholders in relation to the Offers
“Independent Shareholders”	the Shareholders other than the Offeror and the Offeror Concert Parties
“Last Trading Date”	8 June 2023, being the last trading day prior to the Announcement Date
“Latest Practicable Date”	28 August 2023, being the latest practicable date prior to the printing of this Composite Document for the purpose of ascertaining certain information contained in this Composite Document
“Lender”	Mr. Wang Xiongwei, a third party independent from the Company. Save for the External Financing which results in him being one of the Offeror Concert Parties, the Lender does not have any other relationship with the Company, Mr. Li, Ms. Li Chunyan, Mr. Li Wenhua or Mr. Ma. Neither Mr. Wang Xiongwei nor the parties acting in concert with him had any interest in the Company or had dealt for value in any Shares, convertible securities, warrants or options of the Company or any other relevant securities (as defined in Note 4 to Rules 22 of the Takeovers Code) of the Company during the Relevant Period
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Li”	Mr. Li Cheng, an executive Director and the chairman of the Board, also the ultimate controlling shareholder of each of the Offeror, Ever Thrive and Astute
“Mr. Ma”	Mr. Ma Qinghai, an executive Director and one of the Offeror Concert Parties by virtue of falling into class (6) category of the definition of “acting in concert” under the Takeovers Code

DEFINITIONS

“Offers”	the Share Offer and the Option Offer
“Offer Option”	any and all of the outstanding Share Options, which remain unexercised as at the Latest Practicable Date and are subject to the Option Offer
“Offer Period”	has the meaning given to it under the Takeovers Code, being the period from the Announcement Date until the latest of (i) the Closing Date; (ii) the date when the Offers lapse; (iii) the time when the Offeror announces that the Offers will not proceed; and (iv) the date when an announcement is made of the withdrawal of the Offers
“Offer Price”	the price at which the Share Offer is made, being HK\$1.0 per Offer Share
“Offer Share(s)”	the Share(s), other than those already owned and/or agreed to be acquired by the Offeror and/or the BVI PAC
“Offeror”	Harmonic Ease Ventures Limited (和安創投有限公司), a limited company incorporated in the British Virgin Islands and directly owned by Ever Thrive and Astute as to 50.0% and 50.0% respectively
“Offeror Concert Party(ies)”	parties acting in concert with the Offeror, including but not limited to, Mr. Li, Ms. Li Chunyan, Mr. Li Wenhua, the Lender, Halcyon, Astute, Ever Thrive and Mr. Ma
“Offers Unconditional Date”	the date on which the Offers become unconditional in all respects
“Option Cancellation Price”	the cancellation price per outstanding Share Options payable in cash by the Offeror to the Optionholders pursuant to the Option Offer
“Option Offer”	the voluntary conditional cash offer by Halcyon Securities on behalf of the Offeror to cancel all the Share Options in accordance with the terms and conditions set out in this Composite Document and the PINK Form(s) of Acceptance in respect of the Option Offer
“Optionholder(s)”	holder(s) of the Share Options

DEFINITIONS

“person”	any natural person, firm, company, joint venture, partnership, corporation, association or other entity (whether or not having a separate legal personality) or any of them as the context so requires
“ PINK Form(s) of Acceptance”	the PINK form(s) of acceptance for cancellation of all outstanding Share Options in respect of the Option Offer which accompanies this Composite Document, to be used by the Optionholders
“PRC”	the People’s Republic of China, but for the purpose of this Composite Document, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Registrar”	the Company’s branch share registrar in Hong Kong (being Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong)
“Relevant Period”	the period commencing on the date six months before the commencement date of the Offer Period (i.e. 23 June 2023) and ending on and including the Latest Practicable Date
“RMB”	Renminbi, the lawful currency of the PRC
“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
“Share Offer”	the voluntary conditional general cash offer by Halcyon Securities on behalf of the Offeror to acquire all the Offer Shares in accordance with the terms and conditions set out in this Composite Document and the WHITE Form(s) of Acceptance in respect of the Share Offer
“Shareholders”	holder(s) of Shares
“Share Option(s)”	the share option(s) granted under the Share Option Scheme from time to time

DEFINITIONS

“Share Option Scheme”	the share option scheme adopted by the Company on 7 November 2013
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	The Code on Takeovers and Mergers
“US\$”	United States dollar(s), the lawful currency of the United States of America
“ WHITE Form(s) of Acceptance”	the WHITE form(s) of acceptance and transfer in respect of the Share Offer which accompanies this Composite Document, to be used by the holders of Offer Shares
“%”	per cent.

In this document, for illustration purposes only, RMB has been converted into HK\$ at the rate of RMB1.0:HK\$1.1, and US\$ has been converted into HK\$ at the rate of US\$1.0: HK\$7.8. No representation is made that any amount of RMB, US\$ or HK\$ has been, could have been or could be converted at the above rate or at any other rate or at all.

LETTER FROM HALCYON SECURITIES



31 August 2023

To: the holders of the Offer Shares and the Optionholders:

**PROPOSED PRIVATISATION BY WAY OF
VOLUNTARY CONDITIONAL GENERAL CASH OFFERS BY
HALCYON SECURITIES LIMITED ON BEHALF OF THE OFFEROR
TO ACQUIRE ALL THE ISSUED SHARES IN THE COMPANY
(OTHER THAN THOSE SHARES ALREADY OWNED AND/OR
AGREED TO BE ACQUIRED BY THE OFFEROR AND/OR
THE BVI PAC) AND TO CANCEL ALL
OUTSTANDING SHARE OPTIONS**

Dear Sir or Madam,

INTRODUCTION

On 23 June 2023, the Offeror and the Company jointly announced that, among others, Halcyon Securities, on behalf of the Offeror, intended to make a voluntary conditional general cash offers (i) to acquire all the Shares other than those Shares already owned and/or agreed to be acquired by the Offeror and/or the BVI PAC; and (ii) cancel all the outstanding Share Options.

Subject to the Share Offer becoming unconditional and satisfaction of the requirements under the Cayman Islands Companies Act and the Takeovers Code, the Offeror intends to privatise the Company by exercising its right to compulsorily acquire those Offer Shares not already acquired and/or agreed to be acquired by the Offeror and/or the BVI PAC under the Share Offer. If the Offeror completes the compulsory acquisition, an application will be made for the withdrawal of listing of the Shares from the Stock Exchange.

This letter forms part of the Composite Document and sets out, among other things, details of the Offers, reasons for and benefits of the Offers, and the Offeror's intentions in relation to the Group. Further details on the terms and the procedures for acceptance of the Offers are set out in Appendix I to this Composite Document and the accompanying Form(s) 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(s) of Acceptance, and to consult their own professional advisers before reaching a decision as to whether or not to accept the Offers.

LETTER FROM HALCYON SECURITIES

THE OFFERS

Halcyon Securities, on behalf of the Offeror, is making the Offers in compliance with the Takeovers Code on the following basis:

The Offer Share(s) under the Share Offer:

For each Offer ShareHK\$1.0 in cash

The Offer Option(s) under the Option Offer:

**For the cancellation of each Share Option with
an exercise price of HK\$1.095 HK\$0.0001 in cash**

**For the cancellation of each Share Option with
an exercise price of HK\$1.195 HK\$0.0001 in cash**

As at the Latest Practicable Date, the Company has 708,008,090 Shares in issue and 13,938,200 Share Options outstanding entitling the Optionholders to subscribe for 13,938,200 Shares. The Offeror and Offeror Concert Parties held in aggregate 526,738,667 Shares, representing 74.4% of the issued share capital of the Company as at the Latest Practicable Date.

The Offer Shares to be acquired under the Share Offer shall be fully paid-up and shall be acquired by the Offeror or its nominee(s) free from all liens, mortgages, charges, encumbrances, rights of pre-emption and any other third parties rights of any nature together with all rights, benefits and entitlements attaching thereto as at the date when the Share Offer is made, that is, the date of posting of this Composite Document.

It is noted that in accordance with the terms and conditions of the Share Option Scheme, the Optionholders shall be entitled to exercise the Share Options in full (to the extent not already lapsed or exercised) at any time within one month after the date on which the Share Offer becomes or is declared unconditional. In the event that Optionholder exercises any outstanding Share Options within one month after the date on which the Share Offer becomes or is declared unconditional, such Shares shall be considered as Offer Shares and may be compulsorily acquired by the Offeror in the event the Offeror exercises its right to compulsorily acquire those Offer Shares not already owned and/or agreed to be acquired by it and/or the BVI PAC under the Share Offer pursuant to Section 88 of the Cayman Islands Companies Act and Rule 2.11 of the Takeovers Code (for further details, please refer to the paragraph headed "Possible compulsory acquisition and withdrawal of listing of shares" below). Any Share Options that remained outstanding and not exercised will lapse at the end of one month after the date on which the Share Offer becomes or is declared unconditional, regardless of whether the Company will remain listed or not after the Share Offer.

LETTER FROM HALCYON SECURITIES

Conditions of the Offers

The Offers are subject to the following Conditions:

- (i) valid acceptances of the Share Offer having been received (and not, where permitted, withdrawn) by 4:00 p.m. on the Closing Date (or such later time or date as the Offeror may decide, subject to the rules of the Takeovers Code) in respect of such number of Offer Shares which would result in the Offeror holding not less than 90% of the Disinterested Shares;
- (ii) no event having occurred which would (a) make the Share Offer, the Option Offer, the acquisition of the Offer Shares or the cancellation of the Offer Options void, unenforceable or illegal; or (b) prohibit the implementation of the Offers; or (c) would impose any additional material conditions or obligations with respect to the Offers;
- (iii) all necessary consents in connection with the Offers and in connection with the withdrawal of listing of the Shares from the Stock Exchange which may be required under any existing contractual obligations of the Company being obtained and remaining in effect (i.e. the consents required to be given by the counterparty(ies) of any contracts entered into between the Company and such counterparty(ies) when the Company withdraws the listing of its Shares on the Stock Exchange, pursuant to the terms of such contracts);
- (iv) no relevant government, governmental, quasi-government, statutory or regulatory body, court or agency in Hong Kong, the Cayman Islands or any other jurisdictions having taken or instituted any action, proceeding, suit, investigation or enquiry (or enacted, made or proposed, and there will not continuing to be outstanding, any statute, regulation, demand or order) that would make the Offers or their implementation in accordance with their respective terms void, unenforceable, illegal or impracticable (or which would impose any material and adverse conditions or obligations with respect to the Offers or their implementation in accordance with their respective terms); and
- (v) since the Announcement Date, there having been no material adverse change in the business, assets, financial or trading positions or prospects or conditions (whether operational, legal or otherwise) of the Group (to an extent which is material in the context of the Group taken as a whole).

As at the Latest Practicable Date, the Offeror was not aware of any consent required under Condition (iii) above. Other than Condition (i), the Offeror reserves the right to waive, in whole or in part all or any of the Conditions set out above.

LETTER FROM HALCYON SECURITIES

Pursuant to Note 2 to Rule 30.1 of the Takeovers Code, the Offeror should not invoke any or all of the Conditions (other than Condition (i)) so as to cause the Offers to lapse unless the circumstances which give rise to the right to invoke any such Condition are of material significance to the Offeror in the context of the Offers.

In accordance with Rule 15.3 of the Takeovers Code, the Offeror must publish an announcement when the Offers become unconditional as to acceptances and when the Offers become unconditional in all respects. The Offers must also remain open for acceptance for at least 14 days after the Offers becomes unconditional in all respects. Shareholders are reminded that the Offeror does not have any obligation to keep the Offers open for acceptance beyond this 14-day period.

As at the Latest Practicable Date, the Conditions have not been satisfied. If the above Conditions are not satisfied on or before the Closing Date, the Offers will lapse unless the Offers are extended by the Offeror in accordance with the Takeovers Code. The Offeror will issue an announcement in relation to the revision, extension or lapse of the Offers or the fulfilment of the Conditions in accordance with the Takeovers Code and the Listing Rules. In accordance with Rule 15.5 of the Takeovers Code, the latest time on which the Offers may become or may be declared unconditional as to acceptance is 7:00 p.m. on the 60th day after the posting of this Composite Document (or such later date to which the Executive may consent).

The Option Offer will be subject to and conditional upon the Share Offer becoming or being declared unconditional in all aspects. The last day for acceptance of the Option Offer shall be at least 14 days after the date on which the Offers become or are declared unconditional, and payment to accepting Optionholders under the Option Offer will be made within seven (7) Business Days (as defined under the Takeovers Code) following the later of the date on which the Option Offer becomes, or is declared, unconditional and the date of receipt of a duly completed acceptance.

WARNING: Shareholders, Optionholders and potential investors of the Company should note that the Offers are subject to the Conditions described in the paragraph headed “Conditions of the Offers” in this Composite Document. The Conditions may or may not be fulfilled and accordingly the Offers may or may not proceed. Shareholders, Optionholders and potential investors of the Company are advised to exercise extreme caution when dealing in the Shares and other securities of the Company, and if they are in doubt about their positions, they should consult their professional advisers.

LETTER FROM HALCYON SECURITIES

Comparisons of value

The Offer Price of HK\$1.0 represents:

- (i) a premium of approximately 5.3% over the closing price of HK\$0.95 per Shares as quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) a premium of approximately 58.7% over the closing price of HK\$0.630 per Shares as quoted on the Stock Exchange on the Last Trading Day;
- (iii) a premium of approximately 55.8% over the average closing price of approximately HK\$0.642 per Share based on the daily closing prices as quoted on the Stock Exchange for the last five consecutive trading days immediately prior to and including the Lasting Trading Day;
- (iv) a premium of approximately 61.0% over the average closing price of approximately HK\$0.621 per Share based on the daily closing prices as quoted on the Stock Exchange for the last 10 consecutive trading days immediately prior to and including the Last Trading Day;
- (v) a premium of approximately 52.9% over the average closing price of approximately HK\$0.654 per Share based on the daily closing prices as quoted on the Stock Exchange for the last 30 consecutive trading days immediately prior to and including the Last Trading Day;
- (vi) a premium of approximately 38.5% over the average closing price of approximately HK\$0.722 per Share based on the daily closing prices as quoted on the Stock Exchange for the last 60 consecutive trading days immediately prior to and including the Last Trading Day;
- (vii) a discount of approximately 41.5% of the audited consolidated net asset attributed to shareholders of the Company of approximately HK\$1.71 per Share as at 31 December 2022 (based on the audited consolidated equity attributable to the Shareholders of approximately RMB1,102 million (equivalent to approximately HK\$1,212 million) as at 31 December 2022 and 708,008,090 Shares in issue as at the Latest Practicable Date); and
- (viii) a discount of approximately 42.9% of the unaudited consolidated net asset attributed to shareholders of the Company of approximately HK\$1.75 per Share as at 30 June 2023 (based on the unaudited consolidated equity attributable to the Shareholders of approximately RMB1,123.5 million (equivalent to approximately HK\$1,235.5 million) as at 30 June 2023 and 708,008,090 Shares in issue as at the Latest Practicable Date); and

LETTER FROM HALCYON SECURITIES

- (ix) a discount of approximately 46.52% of the adjusted unaudited consolidated net asset attributable to shareholders of the Company as at 30 June 2023 of approximately HK\$1.87 per Share after taking into account of the property valuation as set out in Appendix III to this Composite Document.

A property valuation report from an independent property valuer pursuant to Rule 11 of the Takeovers Code has been included in this Composite Document, providing an updated valuation of the Group's properties as at a date not more than three months prior to the date of this Composite Document.

Under the Option Offer, the exercise prices of the Share Options exceeded the Offer Price, the Offeror will offer the Optionholders a nominal amount of HK\$0.0001 for each outstanding Share Option that they hold. The following table sets out the exercise prices for all the outstanding Share Options and their respective nominal amounts under the Option Offer (i.e. the Option Cancellation Price):

Exercise Price (HK\$)	Nominal amount (HK\$)	Exercisable Period (DD/MM/YYYY)	Total number of outstanding Shares Options exercisable as at the Announcement Date
1.095	0.0001	02/04/2016 - 05/01/2025	5,139,400
1.195	0.0001	02/04/2017 - 30/12/2025	8,798,800

During the Relevant Period, the lowest closing price and the highest closing price of the Shares as quoted on the Stock Exchange were HK\$0.58 per Share on 18 May 2023, 19 May 2023, 31 May 2023 and 1 June 2023 and HK\$0.96 per Share on 27 June 2023, respectively.

Value of the Offers

On the assumption that the (i) there are a total of 183,945,100 Offer Shares as at the Latest Practicable Date and that all holders of Offer Shares accept the Share Offer at the Offer Price in respect of their respective Offer Shares; (ii) all the outstanding 13,938,200 outstanding Share Options as at the Latest Practicable Date have not been exercised and all holders of the such Offer Options accept the Option Offer in respect of their entire holdings of the Offer Options at the relevant Option Cancellation Price; and (iii) there are no other changes to the securities of the Company, the maximum value of the Offers made to holders of Offer Shares and Optionholders, being the maximum amount payable by the Offeror under the Offers made to holders of Offer Shares and Optionholders, is approximately HK\$183.9 million.

LETTER FROM HALCYON SECURITIES

The following table shows the total consideration payable by the Offeror for the Offer Shares and the relevant Offer Options:

	Offer Shares	Offer Options for each Share Option at an exercise price of HK\$1.095	Offer Options for each Share Option at an exercise price of HK\$1.195	Total
Number of Offer Shares/Offer Options	183,945,100	5,139,400	8,798,800	–
Offer Price/Option Cancellation Price	HK\$1.0	HK\$0.0001	HK\$0.0001	–
Total offer price	HK\$183,945,100	HK\$513.9	HK\$880.0	HK\$183,946,493.9

In the event that all Offer Options are exercised in full by the Optionholders prior to the Closing Date which results in an additional 13,938,200 Shares being issued and assuming that all the Optionholders accept the Share Offer in respect of all those resulting Shares, the maximum amount payable by the Offeror under the Offers will be increased to approximately HK\$197.9 million and in such case the Company will receive an aggregate subscription price for the exercise of the Offer Options of approximately HK\$16.1 million. However, the Offeror does not expect the Optionholders to exercise the Offer Options given that the exercise price for each Offer Option is premium over the Offer Price and there will be no additional monetary benefit to the Optionholders.

Financial resources

The Offeror intends to satisfy the cash consideration payable under the Offers in respect of the Offer Shares (including Shares to be issued upon full exercise of all Offer Options) using funds provided by Ever Thrive.

Ever Thrive has undertaken to the Offeror and Halcyon Capital that Ever Thrive will finance the Offeror the financial resources required to satisfy the maximum amount of consideration to effect the Offers in respect of the Offer Shares (including Shares to be issued upon full exercise of all Offer Options, assuming all Offer Options are exercised in full by the Optionholders).

Financial resources of Ever Thrive were obtained from a combination of its internal resources and External Financing. The Lender is principally engaged in construction business and is a third party independent of the Company and one of the Offeror Concert Parties. Mr. Li has provided a personal guarantee in favour of the Lender in respect of all amounts due under the External Financing. There is no charge over the Shares pursuant to the terms and conditions of the External Financing.

LETTER FROM HALCYON SECURITIES

Halcyon Capital, the financial adviser to the Offeror, is satisfied that sufficient financial resources are available to the Offeror to satisfy the maximum amount of consideration required to effect the Offers with respect to the Offer Shares (including Shares to be issued upon full exercise of all Offer Options, assuming all Offer Options are exercised in full by the Optionholders).

Duration of the Offers

The Offers are initially open for acceptance for at least 21 days from the date of despatch of this Composite Document, unless the Offers are withdrawn with the consent of the Executive and the Offeror is released from any obligation incurred thereunder. The Offeror intends to avail itself of exercising its right under section 88 of the Cayman Islands Companies Act and Rule 2.11 of the Takeovers Code to compulsorily acquire those Offer Shares not already owned and/or agreed to be acquired by the Offeror and/or the BVI PAC, the Offers may not remain open for acceptance for more than four months from the Despatch Date, unless the Offeror has, by that time, become entitled to exercise such powers of compulsory acquisition, in which event the Offeror must do so without delay.

Overseas Shareholders and Optionholders

The making of the Offers to certain Shareholders and Optionholders who are citizens, residents or nationals of jurisdictions outside Hong Kong may be subject to the laws of the relevant jurisdictions. Such overseas Shareholders and Optionholders should inform themselves about and observe any applicable legal, tax or regulatory requirements. It is the responsibility of each such Shareholder and/or Optionholder who wishes to accept or take any other action in relation to the Share Offer and/or Option Offer (where applicable) 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, which may be required and the compliance with other necessary formalities or legal or regulatory requirements and the payment of any transfer or cancellation or other taxes and duties payable by such Shareholder and/or Optionholder (where applicable) in such relevant jurisdictions.

Any acceptance by such overseas Shareholders and/or Optionholders (where applicable) will be deemed to constitute a representation and warranty from such persons to the Company, the Offeror, and their respective advisers, including Halcyon, that those relevant laws and regulatory requirements in those jurisdictions have been complied with. The overseas Shareholders and/or Optionholders should consult their professional advisers if in doubt.

LETTER FROM HALCYON SECURITIES

Hong Kong stamp duty

Seller's ad valorem stamp duty at a rate of 0.13% of the market value of the Offer Shares or consideration payable by the Offeror in respect of the relevant acceptances of the Share Offer, whichever is higher, will be deducted from the cash amount payable to the relevant Shareholder on acceptance of the Share Offer (where the stamp duty calculated includes a fraction of HK\$1.00, the stamp duty would be rounded-up to the nearest HK\$1.00). The Offeror will arrange for payment of the sellers' ad valorem stamp duty on behalf of such accepting Shareholders and pay the buyer's ad valorem stamp duty and will account to the Stamp Office of Hong Kong for all stamp duty payable for the sale and purchase of Offer Shares in respect of which valid acceptances are received under the Share Offer.

No stamp duty is payable in connection with the acceptances of the Option Offer.

INFORMATION ON THE OFFEROR

The Offeror is a company incorporated in the British Virgin Islands with limited liability, the issued shares of which are directly owned by Ever Thrive and Astute as to 50.0% and 50.0% respectively. Mr. Li is the ultimate controlling shareholder of each of the Offeror, Ever Thrive and Astute. The Offeror is an investment holding company and has not been engaged in any other business activities since its incorporation.

Mr. Li is an executive Director and the chairman of the Board. He has more than 30 years of experience in textile and trading industry, and is mainly responsible for overall business strategy and management of the Group.

REASONS AND BENEFITS OF THE OFFERS

The Offeror believes that the Offers provide the following benefits to (i) the Offeror and the Company; and (ii) the holders of the Offer Shares and the Optionholders.

For the Offeror and the Company

Amidst the lingering effects of the COVID-19 pandemic and the tension resulting from the international trade conflicts, the Offeror has confidence in the growth potential of the (i) dyeing and processing of differentiated polyester filament fabric in the PRC; (ii) properties investment in the PRC; and (iii) environmental water project operation in the South-east Asia.

LETTER FROM HALCYON SECURITIES

Due to the low liquidity in the trading of its Shares, the Company's current listing status on the Stock Exchange no longer serves a sufficient source of funding for the Company's business and growth. The Offeror considers that the privatisation of the Company will facilitate business integration between the companies owned by Mr. Li, which are principally engaged in production of differentiated polyester filament yarn and cotton textile, and the Company. The Offeror expects that, after the privatisation of the Company, the dyeing and processing procedures for textiles produced by companies owned by Mr. Li can be entrusted to the Company. In addition, Mr. Li can benefit from the customer network of the Company and further sell finished textile products to downstream customers. Such integration will form a complete production and distribution chain of polyester filament textile which provides the Offeror with greater flexibility to support the future business development of the Company through onshore resources without being subjected to regulatory restrictions and compliance obligations and procedures associated with the listing status of the Company on the Stock Exchange. Consequently, listing-related and compliance related costs and expenses will also be saved when the Group is taken private.

For the holders of the Offer Shares and the Optionholders

The Offeror believes that the Share Offer provides an opportunity for the holders of the Offer Shares to realise their Shares (which have a relatively low degree of market liquidity) in return for cash. In this regard, the Offeror noted that the trading volume of the Shares on the Stock Exchange has been generally very low. The average daily trading volume of the Shares during the period from the beginning of 2023 to the Last Trading Day was less than 30,000 Shares (representing approximately 0.0004% of the total number of Shares in issue as at the Last Trading Day).

During the six-month period immediately prior to and including the Last Trading Day, the highest closing price of the Shares as quoted on the Stock Exchange was HK\$0.91 per Share on 13 December 2022, 14 December 2022 and 11 January 2023, and the lowest closing price of the Shares as quoted on the Stock Exchange was HK\$0.58 per Share on 18 May 2023, 19 May 2023, 31 May 2023 and 1 June 2023. The Offeror believes that the Offer Price represents a premium to the prices at which the market had valued the Company and has reflected the potential value of the development of the business of the Company in the next few years under its current state and provides an opportunity for the holders of the Offer Shares and the Optionholders to immediately realise their investments. The Offers therefore allow the holders of the Offer Shares and the Optionholders a chance to redeploy capital from accepting the Offers into other investment opportunities that they may consider more attractive in the current market environment.

Shareholders and Optionholders are reminded to refer to the details of the Offers set out in this Composite Document, including the advice of the independent financial adviser to the Independent Board Committee and the recommendation from the Independent Board Committee in respect of the Offers, before deciding whether or not to accept the Offers.

LETTER FROM HALCYON SECURITIES

Intentions of the Offeror in relation to the Group

The Offeror intends to continue the existing businesses of the Group upon completion of the Offers, and to develop deeper synergies with the Group's overall businesses, explore new development opportunities and implement long-term growth strategies. The Offeror may also from time to time, based on market situation, consider introducing significant changes to the existing operations of the Group following the review of its strategic options relating to the business, structure and/or direction of the Group. As at the Latest Practicable Date, the Offeror is still in the course of exploring new opportunities and no definitive plans or opportunities have been identified by the Offeror. The Offeror may continue to explore the possibility of realigning or redeploying the assets of the Group and assess suitable opportunities to enhance the financial flexibility of the Group. The Offeror will continue the employment of the existing employees of the Group following completion of the Offers except for changes which may occur in the ordinary course of business. As at the Latest Practicable Date, there is no plan to change the composition of the Board or to dispose of or transfer any relevant interests in its self-owned properties that are used for carrying out the Group's business operation.

INFORMATION ON THE GROUP

The Company is a company incorporated in the Cayman Islands with limited liability, the issued Shares of which have been listed on the Main Board of the Stock Exchange since 27 November 2013 with the stock code 3608.

The Company is an investment holding company and the Group is principally engaged in (i) dyeing and processing of differentiated polyester filament fabric; (ii) properties investment; and (iii) environmental waters project operation.

Your attention is drawn to the financial and general information of the Group set out in Appendices II and IV to this Composite Document.

POSSIBLE COMPULSORY ACQUISITION AND WITHDRAWAL OF LISTING OF SHARES

Subject to the satisfaction of requirements under Section 88 of the Cayman Islands Companies Act and Rule 2.11 of the Takeovers Code, if the Offeror acquires not less than 90% of the Offer Shares (by virtue of the acceptances of the Share Offer or otherwise) and not less than 90% of the Disinterested Shares within four months of the posting of the Composite Document, the Offeror will privatise the Company by exercising the compulsory acquisition rights to which it is entitled under Rule 2.11 of the Takeovers Code and the Cayman Islands Companies Act to compulsorily acquire those Offer Shares not already owned and/or agreed to be acquired by the Offeror and/or the BVI PAC under the Share Offer on the same terms as the Share Offer, following which the listing of the Shares will be withdrawn from the Stock Exchange pursuant to Rule 6.15(1) of the Listing Rules. The Company will comply with the relevant requirements in the Listing Rules in this regard, and an application will be made for the withdrawal of the listing of the Shares from the Stock Exchange pursuant to Rule 6.15(1) of the Listing Rules.

LETTER FROM HALCYON SECURITIES

LISTING STATUS OF THE COMPANY

Whilst it is the intention of the Offeror to privatise the Company, the Offeror's ability to exercise rights of compulsory acquisition in respect of the Offer Shares is dependent on the level of acceptances of the Share Offer reaching the prescribed level under the Cayman Islands Companies Act and on the requirements of Rule 2.11 of the Takeovers Code being satisfied.

In the event the Offeror is not able to effect the compulsory acquisition, the Offers will not become unconditional and will lapse and the Shares will remain listed on the Stock Exchange.

ACCEPTANCES OF THE OFFERS

Procedures for acceptance of the Offers

You should complete and sign the respective accompanying Form of Acceptance in accordance with the instructions printed thereon, which instructions form part of the terms and conditions of the Offers. The duly completed and signed (i) **WHITE** Form(s) of Acceptance, should be sent, together with 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), to the Registrar at Tricor Investor Services Limited, 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, marked "Yongsheng Advanced Materials Company Limited – Share Offer" on the envelope; and (ii) **PINK** Form(s) of Acceptance should be sent, together with the relevant certificate(s) and/or letter(s) of grant (as the case may be) of the Share Options, to the Company Secretary at Room B, 31/F, King Palace Plaza, No. 55 King Yip Street, Kwun Tong, Kowloon, Hong Kong, marked "Yongsheng Advanced Materials Company Limited – Option Offer" on the envelope, in any event not later than 4:00 p.m. on the Closing Date 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 Takeovers Code. No acknowledgment of receipt of any Form of Acceptance, 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) will be given. Your attention is drawn to "Further terms of the Offers" as set out in Appendix I to this Composite Document and the accompanying Form(s) of Acceptance.

Settlement and share certificates

Once the Offers have become, or have been declared, unconditional in all respects, settlement in cash in respect of acceptances of the Offers will be made as soon as possible pursuant to Rule 20.1 of the Takeovers Code, but in any event, within seven Business Days following (i) the Offers Unconditional Date; or (ii) the date on which the duly completed acceptance of the Offers and the relevant documents of title in respect of such acceptances are received by the Registrar complete and valid pursuant to Note 1 to Rule 30.2 of the Takeovers Code, whichever is later.

LETTER FROM HALCYON SECURITIES

If the Offers are withdrawn or lapse, the Offeror will, as soon as possible but in any event within ten days thereof, post the share certificates and/or transfer receipts (where applicable) and other documents of title (and/or any satisfactory indemnity or indemnities required in respect thereof) (in the case of the Share Offers) and/or the certificates and/or the letters of grant of the Share Options (in the case of Option Offer) lodged with the Form(s) of Acceptance to, or make such documents available for collection by, those holders of the Offer Shares and/or Optionholders who have accepted the Share Offer and/or the Option Offer (as the case may be).

Nominee registration

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

Taxation and independent advice

Shareholders and Optionholders are recommended to consult their own professional advisers if they are in any doubt as to the taxation implications of accepting the Offers. It is emphasised that none of the Offeror, the Company or Halcyon, nor any of their respective directors, officers or associates or any other person involved in the Offers accepts responsibility for any taxation effects on, or liabilities of, any persons as a result of their acceptance or rejection of the Offers.

GENERAL

All documents and remittances will be sent to the Shareholders and Optionholders by ordinary post at their own risk. These documents and remittances will be sent to holders of the Offer Shares at their respective addresses as they appear in the register of members, in case of joint holders whose name appear first in the said register of members; and to Optionholders at the respective addresses as they appear in the records of the Company, unless otherwise specified in the accompanying **WHITE** Form(s) of Acceptance and/or **PINK** Form(s) of Acceptance completed, returned and received by the Registrar or the Company Secretary (as the case may be). None of the Offeror, the Offeror Concert Parties, the Company, Halcyon, the Independent Financial Adviser, the Registrar or any of their ultimate beneficial owners, respective directors, officers, associates, agents or any other person involved in the Offers will be responsible for any loss or delay in transmission of such documents and remittances or any other liabilities that may arise as a result thereof.

LETTER FROM HALCYON SECURITIES

ADDITIONAL INFORMATION

Your attention is drawn to the additional information regarding the Offers set out in the appendices to this Composite Document and the accompanying Form(s) of Acceptance, which form 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” and the letter of advice by the Independent Financial Adviser to the Independent Board Committee as set out in the “Letter from the Independent Financial Adviser” contained in this Composite Document.

Yours faithfully,
For and on behalf of
Halcyon Securities Limited
Gilbert Lam
Executive Director

LETTER FROM THE BOARD



Yongsheng Advanced Materials Company Limited
永盛新材料有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 3608)

Executive Director:

Mr. Li Cheng
Mr. Li Conghua
Mr. Ma Qinghai
Mr. Xu Wensheng

Independent non-executive Directors:

Ms. Wong Wai Ling
Mr. He Chengying
Dr. Wang Huaping

Registered office:

2/F, Century Yard
Cricket Square
P.O. Box 902
Grand Cayman
KY1-1103
Cayman Islands

*Principal place of business
in Hong Kong:*

Room B, 31/F,
King Palace Plaza
No. 55 King Yip Street
Kwun Tong, Kowloon
Hong Kong

31 August 2023

To the holder of Offer Shares and Optionholders

Dear Sir or Madam,

**PROPOSED PRIVATISATION BY WAY OF
VOLUNTARY CONDITIONAL GENERAL CASH OFFERS BY
HALCYON SECURITIES LIMITED
ON BEHALF OF THE OFFEROR
TO ACQUIRE ALL THE ISSUED SHARES IN THE COMPANY
(OTHER THAN THOSE SHARES ALREADY OWNED
AND/OR AGREED TO BE ACQUIRED BY THE OFFEROR AND/OR THE
BVI PAC)
AND TO CANCEL ALL OUTSTANDING SHARE OPTIONS**

1. INTRODUCTION

On 23 June 2023, the Offeror and the Company jointly announced that, among others, Halcyon Securities, on behalf of the Offeror, intended to make a voluntary conditional general cash offers (i) to acquire all the Shares other than those Shares already owned and/or agreed to be acquired by the Offeror and/or the BVI PAC; and (ii) cancel all the outstanding Share Options.

LETTER FROM THE BOARD

The purpose of this Composite Document is to provide you with, among other things, (i) information relating to the Group, the Offeror and the Offers; (ii) the “Letter from Halcyon Securities”, containing, among others, details of the Offers; (iii) the “Letter from the Independent Board Committee” containing the recommendation and advice of the Independent Board Committee to the Independent Shareholders and Optionholders regarding the Offers; (iv) the “Letter from the Independent Financial Adviser” containing the advice from the Independent Financial Adviser to the Independent Board Committee in relation to the Offers; and (v) the accompanying Form(s) of Acceptance.

2. THE OFFERS

Halcyon Securities, on behalf of the Offeror, is making the Offers on the following basis:

The Offer Share(s) under the Share Offer:

For each Offer Share HK\$1.0 in cash

The Share Offer will be extended to all Shareholders, except the Offeror and the BVI PAC.

The Offer Option(s) under the Option Offer:

For the cancellation of each Share Option with
an exercise price of HK\$1.095 HK\$0.0001 in cash

For the cancellation of each Share Option with
an exercise price of HK\$1.195 HK\$0.0001 in cash

As at the Latest Practicable Date, the Company has 708,008,090 Shares in issue and 13,938,200 Share Options outstanding entitling the Optionholders to subscribe for 13,938,200 Shares.

The Offer Shares to be acquired under the Share Offer shall be fully paid-up and shall be acquired by the Offeror or its nominee(s) free from all liens, mortgages, charges, encumbrances, rights of pre-emption and any other third parties rights of any nature together with all rights, benefits and entitlements attaching thereto as at the Despatch Date.

If any dividend, other distribution or return of capital (whether in cash or in kind) is announced, declared, made or paid in respect of the Shares after the Despatch Date, the Offeror reserves the right to reduce the Offer Price by all or any part of the amount or value of such dividend, other distribution or return of capital, in which case any reference in the Announcement, this Composite Document or any other announcement or document to the Offer Price will be deemed to be a reference to the Offer Price as so reduced. As at the Latest Practicable Date, the Company has not declared any dividend which have not been distributed and the Company has no plan to declare, recommend, or pay any dividend or make any other distribution until the close of the Offers.

LETTER FROM THE BOARD

It is noted that in accordance with the terms and conditions of the Share Option Scheme, the Optionholders shall be entitled to exercise the Share Options in full (to the extent not already lapsed or exercised) at any time within one month after the date on which the Share Offer becomes or is declared unconditional. In the event that Optionholder exercises any outstanding Share Options within one month after the date on which the Share Offer becomes or is declared unconditional, such Shares shall be considered as Offer Shares and may be compulsorily acquired by the Offeror in the event the Offeror exercises its right to compulsorily acquire those Offer Shares not already owned and/or agreed to be acquired by it and/or the BVI PAC under the Share Offer pursuant to Section 88 of the Cayman Islands Companies Act and Rule 2.11 of the Takeovers Code (for further details, please refer to the paragraph headed “Possible compulsory acquisition and withdrawal of listing of Shares” below).

Any Share Options that remained outstanding and not exercised will lapse at the end of one month after the date on which the Share Offer becomes or is declared unconditional, regardless of whether the Company will remain listed or not after the Share Offer.

COMPARISONS OF VALUE

The Offer Price of HK\$1.0 represents:

- (i) a premium of approximately 5.3% over the closing price of HK\$0.95 per Shares as quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) a premium of approximately 58.7% over the closing price of HK\$0.630 per Shares as quoted on the Stock Exchange on the Last Trading Day;
- (iii) a premium of approximately 55.8% over the average closing price of approximately HK\$0.642 per Share based on the daily closing prices as quoted on the Stock Exchange for the last five consecutive trading days immediately prior to and including the Lasting Trading Day;
- (iv) a premium of approximately 61.0% over the average closing price of approximately HK\$0.621 per Share based on the daily closing prices as quoted on the Stock Exchange for the last 10 consecutive trading days immediately prior to and including the Last Trading Day;
- (v) a premium of approximately 52.9% over the average closing price of approximately HK\$0.654 per Share based on the daily closing prices as quoted on the Stock Exchange for the last 30 consecutive trading days immediately prior to and including the Last Trading Day;

LETTER FROM THE BOARD

- (vi) a premium of approximately 38.5% over the average closing price of approximately HK\$0.722 per Share based on the daily closing prices as quoted on the Stock Exchange for the last 60 consecutive trading days immediately prior to and including the Last Trading Day;
- (vii) a discount of approximately 41.5% of the audited consolidated net asset attributed to shareholders of the Company of approximately HK\$1.71 per Share as at 31 December 2022 (based on the audited consolidated equity attributable to the Shareholders of approximately RMB1,102 million (equivalent to approximately HK\$1,212 million) as at 31 December 2022 and 708,008,090 Shares in issue as at the Latest Practicable Date);
- (viii) a discount of approximately 42.9% of the unaudited consolidated net asset attributed to shareholders of the Company of approximately HK\$1.75 per Share as at 30 June 2023 (based on the unaudited consolidated equity attributable to the Shareholders of approximately RMB 1,123.5 million (equivalent to approximately HK\$1,235.5 million) as at 30 June 2023 and 708,008,090 Shares in issue as at the Latest Practicable Date); and
- (ix) a discount of approximately 46.52% of the adjusted unaudited consolidated net asset attributable to shareholders of the Company as at 30 June 2023 of approximately HK\$1.87 per Share after taking into account of the property valuation as set out in Appendix III to this Composite Document.

A property valuation report from an independent property valuer pursuant to Rule 11 of the Takeovers Code has been included in this Composite Document, providing an updated valuation of the Group's properties as at a date not more than three months prior to the date of this Composite Document.

Under the Option Offer, the exercise prices of the Share Options exceeded the Offer Price, the Offeror will offer the Optionholders a nominal amount of HK\$0.0001 for each outstanding Share Option that they hold. The following table sets out the exercise prices for all the outstanding Share Options and their respective nominal amounts under the Option Offer (i.e. the Option Cancellation Price):

Exercise Price (HK\$)	Nominal amount (HK\$)	Exercisable Period (DD/MM/YYYY)	Total number of outstanding Shares Options exercisable as at the Latest Practicable Date
1.095	0.0001	02/04/2016 - 05/01/2025	5,139,400
1.195	0.0001	02/04/2017 - 30/12/2025	8,798,800

LETTER FROM THE BOARD

The Offeror intends to satisfy the cash consideration payable under the Offers in respect of the Offer Shares (including Shares to be issued upon full exercise of all Offer Options) using funds provided by Ever Thrive.

Ever Thrive has undertaken to the Offeror and Halcyon Capital that Ever Thrive will finance the Offeror the financial resources required to satisfy the maximum amount of consideration to effect the Offers in respect of the Offer Shares (including Shares to be issued upon full exercise of all Offer Options, assuming all Offer Options are exercised in full by the Optionholders).

Financial resources of Ever Thrive were obtained from a combination of its internal resources and External Financing. The Lender is principally engaged in construction business and is a third party independent of the Company and one of the Offeror Concert Parties. Mr. Li has provided a personal guarantee in favour of the Lender in respect of all amounts due under the External Financing. There is no charge over the Shares pursuant to the terms and conditions of the External Financing.

Halcyon Capital, the financial adviser to the Offeror, is satisfied that sufficient financial resources are available to the Offeror to satisfy the maximum amount of consideration required to effect the Offers with respect to the Offer Shares (including Shares to be issued upon full exercise of all Offer Options, assuming all Offer Options are exercised in full by the Optionholders).

3. CONDITIONS OF THE OFFERS

Your attention is drawn to the section headed “Letter from Halcyon Securities – Conditions of the Offers” in this Composite Document which sets out the Conditions of the Offers.

4. POSSIBLE COMPULSORY ACQUISITION AND WITHDRAWAL OF LISTING OF SHARES

Subject to the satisfaction of requirements under Section 88 of the Cayman Islands Companies Act and Rule 2.11 of the Takeovers Code, if the Offeror acquires not less than 90% of the Offer Shares (by virtue of the acceptances of the Share Offer or otherwise) and not less than 90% of the Disinterested Shares within four months of the posting of the Composite Document, the Offeror will privatise the Company by exercising the compulsory acquisition rights to which it is entitled under Rule 2.11 of the Takeovers Code and the Cayman Islands Companies Act to compulsorily acquire those Offer Shares not already owned and/or agreed to be acquired by the Offeror and/or the BVI PAC under the Share Offer on the same terms as the Share Offer, following which the listing of the Shares will be withdrawn from the Stock Exchange pursuant to Rule 6.15(1) of the Listing Rules. The Company will comply with the relevant requirements in the Listing Rules in this regard, and an application will be made for the withdrawal of the listing of the Shares from the Stock Exchange pursuant to Rule 6.15(1) of the Listing Rules.

LETTER FROM THE BOARD

Whilst it is the intention of the Offeror to privatise the Company, the Offeror's ability to exercise rights of compulsory acquisition in respect of the Offer Shares is dependent on the level of acceptances of the Share Offer reaching the prescribed level under the Cayman Islands Companies Act and on the requirements of Rule 2.11 of the Takeovers Code being satisfied.

In the event the Offeror is not able to effect the compulsory acquisition, the Offers will not become unconditional and will lapse and the Shares will remain listed on the Stock Exchange. The Offeror may take such steps as are necessary to ensure, or procure the Company to take such steps as are necessary to ensure, that the Company maintains an adequate public float so as to comply with the applicable requirements of the Listing Rules.

Based on the register of members of the Company and the disclosure of interests notices filed by Shareholders, the public float of the Company is approximately 25.6% as at the Latest Practicable Date, which is above the minimum of 25% as required under the Listing Rules.

The Stock Exchange has stated that if, at the close of the Offers, less than the minimum prescribed percentage applicable to the Company, being 25% of the issued Shares, are held by the public, or if the Stock Exchange believes that (i) a false market exists or may exist in the trading of the Shares or (ii) there are insufficient Shares in public hands to maintain an orderly market, the Stock Exchange will consider exercising its discretion to suspend dealings in the Shares.

If the Offeror does not effect compulsory acquisition of those Offer Shares not already acquired by the Offeror under the Share Offer, the Offeror intends the Company to remain listed on the Stock Exchange. The sole director of the Offeror, Mr. Li, has undertaken to the Stock Exchange to take appropriate steps to ensure that sufficient public float exists in the Shares as required under Rule 8.8 of the Listing Rules following the close of the Offers, if the Offeror does not effect compulsory acquisition and the Company remains listed on the Stock Exchange. Appropriate actions to be taken shall include placing down of sufficient number of accepted Offer Shares by the Offeror and/or procure the Company to issue additional Shares for this purpose. The Company and the Offeror will issue a separate announcement as and when necessary in this regard.

LETTER FROM THE BOARD

5. VALUE OF THE OFFERS

On the assumption that the (i) there are a total of 183,945,100 Offer Shares as at the Latest Practicable Date and that all holders of Offer Shares accept the Share Offer at the Offer Price in respect of their respective Offer Shares; (ii) all the outstanding 13,938,200 outstanding Share Options as at the Latest Practicable Date have not been exercised and all holders of the such Offer Options accept the Option Offer in respect of their entire holdings of the Offer Options at the relevant Option Cancellation Price; and (iii) there are no other changes to the securities of the Company, the maximum value of the Offers made to holders of Offer Shares and Optionholders, being the maximum amount payable by the Offeror under the Offers made to holders of Offer Shares and Optionholders, is approximately HK\$183.9 million.

The following table shows the total consideration payable by the Offeror for the Offer Shares and the relevant Offer Options:

	Offer Shares	Offer Options for each Share Option at an exercise price of HK\$1.095	Offer Options for each Share Option at an exercise price of HK\$1.195	Total
Number of Offer Shares/Offer Options	183,945,100	5,139,400	8,798,800	-
Offer Price/Option Cancellation Price	HK\$1.0	HK\$0.0001	HK\$0.0001	-
Total offer price	HK\$183,945,100	HK\$513.9	HK\$880.0	HK\$183,946,493.9

In the event that all Offer Options are exercised in full by the Optionholders prior to the Closing Date which results in an additional 13,938,200 Shares being issued and assuming that all the Optionholders accept the Share Offer in respect of all those resulting Shares, the maximum amount payable by the Offeror under the Offers will be increased to approximately HK\$197.9 million and in such case the Company will receive an aggregate subscription price for the exercise of the Offer Options of approximately HK\$16.1 million. However, the Offeror does not expect the Optionholders to exercise the Offer Options given that the exercise price for each Offer Option is premium over the Offer Price and there will be no additional monetary benefit to the Optionholders.

6. INFORMATION OF THE OFFEROR

The Offeror is a company incorporated in the British Virgin Islands with limited liability, the issued shares of which are directly owned by Ever Thrive and Astute as to 50.0% and 50.0% respectively. Mr. Li is the ultimate controlling shareholder of each of the Offeror, Ever Thrive and Astute. The Offeror is an investment holding company and has not been engaged in any other business activities since its incorporation.

LETTER FROM THE BOARD

Mr. Li is an executive Director and the chairman of the Board. He has more than 30 years of experience in textile and trading industry, and is mainly responsible for overall business strategy and management of the Group.

7. INFORMATION OF THE GROUP

The Company is a company incorporated in the Cayman Islands with limited liability, the issued Shares of which have been listed on the Main Board of the Stock Exchange since 27 November 2013 with the stock code 3608.

The Company is an investment holding company and the Group is principally engaged in (i) dyeing and processing of differentiated polyester filament fabric; (ii) properties investment; and (iii) environmental waters project operation.

Your attention is drawn to the financial and general information of the Group set out in Appendices II and IV to this Composite Document.

Shareholding structure of the Company

The table below sets out the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately after completion of the Offers (assuming the Share Offer is fully accepted and none of the Share Options have been exercised on or prior to the Closing Date); and (iii) immediately after completion of the Offers (assuming the Share Offer is fully accepted and all of the Share Options have been exercised on or prior to the Closing Date):

	As at the Latest Practicable Date		Immediately after completion of the Offers (assuming the Share Offer is fully accepted and none of the Share Options have been exercised on or prior to the Closing Date) ⁽²⁾		Immediately after completion of the Offers (assuming the Share Offer is fully accepted and all of the Share Options have been exercised on or prior to the Closing Date) ⁽³⁾	
	Number of Shares held	% of Shares in issue ⁽¹⁾	Number of Shares held	% of Shares in issue ⁽¹⁾	Number of Shares held	% of Shares in issue ⁽¹⁾
Offeror and Offeror Concert Parties						
Offeror	–	–	183,945,100	26.0	197,883,300	27.4
Offeror Concert Parties:						
BVI PAC						
• Ever Thrive ⁽⁴⁾	249,401,700	35.2	249,401,700	35.2	249,401,700	34.6
• Astute ⁽⁵⁾	274,661,290	38.8	274,661,290	38.8	274,661,290	38.0
Sub-total	524,062,990	74.0	524,062,990	74.0	524,062,990	72.6
Mr. Ma ⁽⁶⁾	2,675,677	0.4	–	–	–	–
Aggregate number of Shares held by the Offeror and the Offeror Concert Parties						
Public Shareholders	526,738,667	74.4	708,008,090	100.0	721,946,290	100.0
	181,269,423	25.6	–	–	–	–
Total	708,008,090	100.0	708,008,090	100.0	721,946,290	100.0

LETTER FROM THE BOARD

Notes:

1. The above percentage figures are subject to rounding adjustments. Accordingly, figures shown as total may not be an arithmetic aggregation of the figures preceding them.
2. This scenario is for illustrative purpose only on the assumption that there will be no other changes to the issued share capital of the Company since the Latest Practicable Date and assuming that none of the Share Options have been exercised on or prior to the Closing Date.
3. This scenario is for illustrative purpose only on the assumption that there will be no other changes to the issued share capital of the Company since the Latest Practicable Date, apart from all of the Share Options have been exercised on or prior to the Closing Date.
4. Ever Thrive was owned by Mr. Li, an executive Director, and Ms. Li Chunyan, who is a daughter of Mr. Li and one of the Offeror Concert Parties, as to approximately 95.7% and 4.3% respectively. Shares held by Ever Thrive do not form part of the Disinterested Shares. As at the Latest Practicable Date, Ever Thrive has given its approval as one of the BVI PAC and a Shareholder in favour of the Offeror for the purposes of Section 88 of the Cayman Islands Companies Act.
5. Astute was owned by (i) Mr. Li, an executive Director; (ii) Ms. Li Chunyan, who is a daughter of Mr. Li, a director of Astute and one of the Offeror Concert Parties; and (iii) Mr. Li Wenhua, who is a nephew of Mr. Li, a director of Astute and one of the Offeror Concert Parties, as to approximately 90%, 5% and 5%, respectively. Shares held by Astute do not form part of the Disinterested Shares. As at the Latest Practicable Date, Astute has given its approval as one of the BVI PAC and a Shareholder in favour of the Offeror for the purposes of Section 88 of the Cayman Islands Companies Act.
6. Mr. Ma is an executive Director and is one of the Offeror Concert Parties by virtue of falling into class (6) category of the definition of “acting in concert” under the Takeovers Code. Shares held by Mr. Ma do not form part of the Disinterested Shares. For the avoidance of doubt, Shares held by Mr. Ma form part of the Offer Shares and be eligible to participate in the Share Offer.

As at the Latest Practicable Date, the Company had 13,938,200 outstanding Share Options entitling the Optionholders to subscribe for up to an aggregate of (i) 5,139,400 Shares at an exercise price of HK\$1.095 per Share; and (ii) 8,798,800 Shares at an exercise price of HK\$1.195 per Share. If the Share Options are exercised in full, the Company will have to issue an additional 13,938,200 Shares, representing approximately 1.9% of the enlarged issued share capital of the Company (assuming there is no other changes in the securities of the Company). As at the Latest Practicable Date, save Mr. Ma, an executive Director, had been granted 4,400,000 Shares Options, the Offeror and the Offeror Concert Parties are not interested in any other securities of the Company.

LETTER FROM THE BOARD

8. REASONS FOR, AND THE BENEFITS OF, THE OFFERS

The Offeror believes that the Offers provide the following benefits to (i) the Offeror and the Company; and (ii) the holders of Offer Shares and the Optionholders.

For the Offeror and the Company

Amidst the lingering effects of the COVID-19 pandemic and the tension resulting from the international trade conflicts, the Offeror has confidence in the growth potential of the (i) dyeing and processing of differentiated polyester filament fabric in the PRC; (ii) properties investment in the PRC; and (iii) environmental water project operation in the South-east Asia.

Due to the low liquidity in the trading of its Shares, the Company's current listing status on the Stock Exchange no longer serves a sufficient source of funding for the Company's business and growth. The Offeror considers that the privatisation of the Company will facilitate business integration between the companies owned by Mr. Li which are principally engaged in production of differentiated polyester filament yarn and cotton textile, and the Company. The Offeror expects that, after the privatisation of the Company, the dyeing and processing procedures for the textiles produced by companies owned by Mr. Li can be entrusted to the Company. In addition, Mr. Li can benefit from the customer network of the Company and further sell finished textile products to downstream customers. Such integration will form a complete production and distribution chain of polyester filament textile which provides the Offeror with greater flexibility to support the future business development of the Company through onshore resources without being subjected to regulatory restrictions and compliance obligations and procedures associated with the listing status of the Company on the Stock Exchange. Consequently, listing-related and compliance-related costs and expenses will also be saved when the Group is taken private.

For the holders of Offer Shares and the Optionholders

The Offeror believes that the Share Offer provides an opportunity for the holders of Offer Shares to realise their Shares (which have a relatively low degree of market liquidity) in return for cash. In this regard, the Offeror noted that the trading volume of the Shares on the Stock Exchange has been generally very low. The average daily trading volume of the Shares during the period from the beginning of 2023 to the Last Trading Day was less than 30,000 Shares (representing approximately 0.0004% of the total number of Shares in issue as at the Last Trading Day).

LETTER FROM THE BOARD

During the six-month period immediately prior to and including the Last Trading Day, the highest closing price of the Shares as quoted on the Stock Exchange was HK\$0.91 per Share on 13 December 2022, 14 December 2022 and 11 January 2023, and the lowest closing price of the Shares as quoted on the Stock Exchange was HK\$0.58 per Share on 18 May 2023, 19 May 2023, 31 May 2023 and 1 June 2023. The Offeror believes that the Offer Price represents a premium to the prices at which the market had valued the Company and has reflected the potential value of the development of the business of the Company in the next few years under its current state and provides an opportunity for the holders of Offer Shares and the Optionholders to immediately realise their investments. The Offers therefore allow the holders of Offer Shares and the Optionholders a chance to redeploy capital from accepting the Offers into other investment opportunities that they may consider more attractive in the current market environment.

9. INTENTION OF THE OFFEROR REGARDING THE GROUP

The Offeror intends to continue the existing businesses of the Group upon completion of the Offers, and to develop deeper synergies with the Group's overall businesses, explore new development opportunities and implement long-term growth strategies. The Offeror may also from time to time, based on market situation, consider introducing significant changes to the existing operations of the Group following the review of its strategic options relating to the business, structure and/or direction of the Group. As at the Latest Practicable Date, the Offeror is still in the course of exploring new opportunities and no definitive plans or opportunities have been identified by the Offeror. The Offeror may continue to explore the possibility of re-aligning or redeploying the assets of the Group and assess suitable opportunities to enhance the financial flexibility of the Group. The Offeror will continue the employment of the existing employees of the Group following completion of the Offers except for changes which may occur in the ordinary course of business. As at the Latest Practicable Date, there is no plan to change the composition of the Board or to dispose of or transfer any relevant interests in its self-owned properties that are used for carrying out the Group's business operation.

10. ADDITIONAL INFORMATION

You are advised to read the "Letter from Halcyon Securities" in and "Appendix I – Further terms of the Offers" to this Composite Document and the accompanying Form(s) of Acceptance for information relating to the Offers and the acceptance and settlement procedures of the Offers. Your attention is also drawn to the additional information contained in the appendices to this Composite Document.

LETTER FROM THE BOARD

11. RECOMMENDATIONS

Your attention is drawn to the “Letter from the Independent Board Committee” and “Letter from the Independent Financial Adviser” in this Composite Document, which set out their respective recommendations and advice in relation to the Offers and the principal factors considered by them in arriving at their respective recommendations and advice.

Holders of Offer Shares and Optionholders are recommended to consult their own professional advisers as to the tax implications that may arise from accepting the Offers.

Yours faithfully.

For and on behalf of the Board of
Yongsheng Advanced Materials Company Limited
Ma Qinghai
Executive Director

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



Yongsheng Advanced Materials Company Limited
永盛新材料有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3608)

31 August 2023

To the Independent Shareholders and the Optionholders

Dear Sir or Madam,

**PROPOSED PRIVATISATION BY WAY OF
VOLUNTARY CONDITIONAL GENERAL CASH OFFERS BY
HALCYON SECURITIES LIMITED
ON BEHALF OF THE OFFEROR
TO ACQUIRE ALL THE ISSUED SHARES IN THE COMPANY
(OTHER THAN THOSE SHARES ALREADY OWNED
AND/OR AGREED TO BE ACQUIRED BY
THE OFFEROR AND/OR THE BVI PAC)
AND TO CANCEL ALL OUTSTANDING SHARE OPTIONS**

1. INTRODUCTION

We refer to the composite offer and response document dated 31 August 2023 issued jointly by the Offeror and the Company (the “**Composite Document**”) of which this letter forms part. Capitalised terms used in this letter have the same meanings as defined in the Composite Document unless the context requires otherwise.

We have been appointed by the Board to form the Independent Board Committee to make recommendations to you as to whether, in our opinion, the terms and conditions of the Offers are fair and reasonable so far as the Independent Shareholders and Optionholders are concerned and as to acceptance of the Offers.

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 Offers and are therefore able to consider the terms of the Offers and to make recommendations to the Independent Shareholders and Optionholders.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Somerley Capital Limited has been appointed, with our approval, as the Independent Financial Adviser to advise and make recommendations to us as to the terms and conditions of the Offers and as to acceptance of the Offers. The details of its advice and recommendations and the principal factors taken into consideration in arriving at its recommendations are set out in the “Letter from the Independent Financial Adviser” set out in the Composite Document.

We also wish to draw your attention to the “Letter from Halcyon Securities”, 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(s) of Acceptance.

2. RECOMMENDATIONS

Having taken into account the terms of the Offers, the advice from the Independent Financial Adviser and the principal factors and reasons taken into consideration by the Independent Financial Adviser in arriving at its recommendation in respect of the Offers as set out in the “Letter from the Independent Financial Adviser”, we concur with the view of the Independent Financial Adviser and consider that the terms of the Offers and the Offeror’s intentions in respect of the Company and the existing employees of the Group are fair and reasonable so far as the Independent Shareholders and Optionholders are respectively concerned.

Accordingly, we recommend the Independent Shareholders and Optionholders to consider accepting the Share Offer and the Option Offer respectively.

Notwithstanding our recommendation, the Independent Shareholders and Optionholders should consider carefully the terms and conditions of the Share Offer and Option Offer respectively.

The Independent Shareholders should consider the possibility that, following the close of the Share Offer, the price of the Shares in the open market may or may not be higher than the Offer Price. Should the market price of the Shares exceed the Offer Price during the Offer Period, and after deducting all transaction cost would exceed the net amount receivable under the Share Offer, the Independent Shareholders should consider selling their Shares in the open market rather than accepting the Share Offer.

Yours faithfully,

Independent Board Committee of the Board

Ms. Wong Wai Ling
*Independent non-executive
Director*

Mr. He Chengying
*Independent non-executive
Director*

Dr. Wang Huaping
*Independent non-executive
Director*

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Set out below is the letter of advice from Somerley Capital Limited, the Independent Financial Adviser to the Independent Board Committee regarding the Offers prepared for the purpose of incorporation in this Composite Document.



SOMERLEY CAPITAL LIMITED

20th Floor

China Building

29 Queen's Road Central

Hong Kong

31 August 2023

To: the Independent Board Committee

Dear Sirs,

**PROPOSED PRIVATISATION BY WAY OF
VOLUNTARY CONDITIONAL GENERAL CASH OFFERS BY
HALCYON SECURITIES LIMITED
ON BEHALF OF THE OFFEROR
TO ACQUIRE ALL THE ISSUED SHARES IN THE COMPANY
(OTHER THAN THOSE SHARES ALREADY OWNED
AND/OR AGREED TO BE ACQUIRED BY THE OFFEROR AND/OR THE
BVI PAC)
AND TO CANCEL ALL OUTSTANDING SHARE OPTIONS; AND
PROPOSED WITHDRAWAL OF LISTING**

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee in connection with the Offers. Details of the Offers are set out in the Composite Document dated 31 August 2023, of which this letter form part. Terms used in this letter shall have the same meanings as those defined in the Composite Document unless the context otherwise requires.

On 23 June 2023, the Offeror and the Company jointly announced that, among others, Halcyon Securities, on behalf of the Offeror, intended to make a voluntary conditional general cash offers to (i) acquire all the Shares other than those Shares already owned and/or agreed to be acquired by the Offeror and/or the BVI PAC; and (ii) cancel all the outstanding Share Options.

Subject to the Share Offer becoming unconditional and satisfaction of the requirements under the Cayman Companies Act and the Takeovers Code, the Offeror intends to privatise the Company by exercising its right to compulsorily acquire those Offer Shares not already acquired and/or agreed to be acquired by the Offeror and/or the BVI PAC under the Share Offer. If the Offeror completes the compulsory acquisition, an application will be made for the withdrawal of listing of the Shares from the Stock Exchange.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee which comprises all the independent non-executive Directors, namely Ms. Wong Wai Ling, Mr. He Chengying and Dr. Wang Huaping has been established to make a recommendation to (a) the Independent Shareholders as to whether the terms of the Share Offer are, or are not, fair and reasonable and as to its acceptance, and (b) the Optionholders as to the acceptance of the Option Offer.

We are not associated with the Company, the Offeror, or any party acting, or presumed to be acting, in concert with any of them and, accordingly, are considered eligible to give independent advice on the Offers. 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 Company, the Offeror or any party acting, or presumed to be acting, in concert with any of them.

In formulating our opinion, we have relied on the information and facts supplied, and the opinions expressed, by the Directors and management of the Group (collectively, the “**Management**”), which we have assumed to be true, accurate and complete. We have reviewed, among other things, the annual reports of the Company for each of the two years ended 31 December 2021 (the “**2021 Annual Report**”) and 31 December 2022 (the “**2022 Annual Report**”), the interim results of the Company for the six months ended 30 June 2023 (the “**2023 Interim Results**”), the property valuation report prepared by AVISTA Valuation Advisory Limited (the “**Valuer**”), the trading performance of the Shares on the Stock Exchange, and information set out in the Composite Document. We have sought and received confirmation from the Directors that no material facts have been omitted from the information supplied and opinions expressed to us. 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 to 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, the Offeror 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 at the time they were made and at the date of the Composite Document and Independent Shareholders and Optionholders will be informed of any material change as soon as possible.

We have not considered the tax and regulatory implications on the Independent Shareholders and the Optionholders of acceptance or non-acceptance of the Offers, as the case may be, since these are particular to their individual circumstances. In particular, the Independent Shareholders and Optionholders who are overseas residents or subject to overseas taxation or Hong Kong taxation on securities dealings should consider their own tax position and, if in any doubt, should consult their own professional advisers.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

PRINCIPAL TERMS OF THE OFFERS

Halcyon Securities, on behalf of the Offeror, is making the Offers in compliance with the Takeovers Code on the following basis:

The Offer Share(s) under the Share Offer:

For each Offer Share HK\$1.0 in cash

The Offer Option(s) under the Option Offer:

**For the cancellation of each Share Option with
an exercise price of HK\$1.095 HK\$0.0001 in cash**

**For the cancellation of each Share Option with
an exercise price of HK\$1.195 HK\$0.0001 in cash**

As at the Latest Practicable Date, the Company has 708,008,090 Shares in issue and 13,938,200 Share Options outstanding entitling the Optionholders to subscribe for 13,938,200 Shares. The Offeror and Offeror Concert Parties held in aggregate 526,738,667 Shares, representing 74.4% of the issued share capital of the Company as at the Latest Practicable Date.

The Offer Shares to be acquired under the Share Offer shall be fully paid-up and shall be acquired by the Offeror or its nominee(s) free from all liens, mortgages, charges, encumbrances, rights of pre-emption and any other third parties rights of any nature together with all rights, benefits and entitlements attaching thereto as at the date when the Share Offer is made, that is, the date of posting of the Composite Document.

If any dividend, other distribution or return of capital (whether in cash or in kind) is announced, declared, made or paid in respect of the Shares after the Despatch Date, the Offeror reserves the right to reduce the Offer Price by all or any part of the amount or value of such dividend, other distribution or return of capital, in which case any reference in the Announcement, the Composite Document or any other announcement or document to the Offer Price will be deemed to be a reference to the Offer Price as so reduced. As at the Latest Practicable Date, the Company has not declared any dividend which have not been distributed and the Company has no plan to declare, recommend, or pay any dividend or make any other distribution until the close of the Offers.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

It is noted that in accordance with the terms and conditions of the Share Option Scheme, the Optionholders shall be entitled to exercise the Share Options in full (to the extent not already lapsed or exercised) at any time within one month after the date on which the Share Offer becomes or is declared unconditional. In the event that Optionholder exercises any outstanding Share Options within one month after the date on which the Share Offer becomes or is declared unconditional, such Shares shall be considered as Offer Shares and may be compulsorily acquired by the Offeror in the event the Offeror exercises its right to compulsorily acquire those Offer Shares not already owned and/or agreed to be acquired by it and/or the BVI PAC under the Share Offer pursuant to Section 88 of the Cayman Islands Companies Act and Rule 2.11 of the Takeovers Code (please refer to the paragraph headed “4. Possible compulsory acquisition and withdrawal of Listing of Shares” in the letter from the Board in the Composite Document for further details). Any Share Options that remained outstanding and not exercised will lapse at the end of one month after the date on which the Share Offer becomes or is declared unconditional, regardless of whether the Company will remain listed or not after the Share Offer.

Details of the terms of the Offers are contained in the letter from Halcyon Securities and Appendix I to this Composite Document. Independent Shareholders and Optionholders are urged to read the relevant sections in the Composite Document in full.

HIGHEST AND LOWEST TRADING PRICES

During the six-month period immediately prior to and including the Last Trading Day, the highest closing price of the Shares as quoted on the Stock Exchange was HK\$0.96 per Share on 27 June 2023 and the lowest closing price of the Shares as quoted on the Stock Exchange was HK\$0.58 per Share on 18 May 2023, 19 May 2023, 31 May 2023 and 1 June 2023.

VALUE OF THE OFFERS MADE TO INDEPENDENT SHAREHOLDERS AND OPTIONHOLDERS

On the assumption that (i) there are a total of 183,945,100 Offer Shares as at the Latest Practicable Date and that all holders of Offer Shares accept the Offer Share Offer at the Offer Price in respect of their respective Shares; (ii) all the outstanding 13,938,200 outstanding Share Options as at the Latest Practicable Date have not been exercised and all holders of the such Offer Options accept the Option Offer in respect of their entire holdings of the Offer Options at the relevant Option Cancellation Price; and (iii) there are no other changes to the securities of the Company, the maximum value of the Offers made to holders of Offer Shares and Optionholders, being the maximum amount payable by the Offeror under the Offers made to holders of Offer Shares and Optionholders, is approximately HK\$183.9 million.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In the event that all Offer Options are exercised in full by the Optionholders prior to the Closing Date which results in an additional 13,938,200 Shares being issued and assuming that all the Optionholders accept the Share Offer in respect of all those resulting Shares, the maximum amount payable by the Offeror under the Offers will be increased to approximately HK\$197.9 million and in such case the Company will receive an aggregate subscription price for the exercise of the Offer Options of approximately HK\$16.1 million. However, the Offeror does not expect the Optionholders to exercise the Offer Options given that the exercise price for each Offer Option is premium over the Offer Price and there will be no additional monetary benefit to the Optionholders.

CONFIRMATION OF FINANCIAL RESOURCES

The Offeror intends to satisfy the cash consideration payable under the Offers in respect of the Offer Shares (including Shares to be issued upon full exercise of all Offer Options) using funds provided by Ever Thrive.

Ever Thrive has undertaken to the Offeror and Halcyon Capital that Ever Thrive will finance the Offeror the financial resources required to satisfy the maximum amount of consideration to effect the Offers in respect of the Offer Shares (including Shares to be issued upon full exercise of all Offer Options, assuming all Offer Options are exercised in full by the Optionholders).

Financial resources of Ever Thrive were obtained from a combination of its internal resources and External Financing. The Lender is principally engaged in construction business and is a third party independent of the Company and one of the Offeror Concert Parties. Mr. Li has provided a personal guarantee in favour of the Lender in respect of all amounts due under the External Financing. There is no charge over the Shares pursuant to the terms and conditions of the External Financing.

Halcyon Capital, the financial adviser to the Offeror, is satisfied that sufficient financial resources are available to the Offeror to satisfy the maximum amount of consideration required to effect the Offers with respect to the Offer Shares (including Shares to be issued upon full exercise of all Offer Options, assuming all Offer Options are exercised in full by the Optionholders).

CONDITIONS OF THE OFFERS

As stated under the section headed “Conditions to the Offers” in the letter from Halcyon Securities in this Composite Document, the Offers are subject to the following Conditions:

- (i) valid acceptances of the Share Offer having been received (and not, where permitted, withdrawn) by 4:00 p.m. on the Closing Date (or such later time or date as the Offeror may decide, subject to the rules of the Takeovers Code) in respect of such number of Offer Shares which would result in the Offeror holding not less than 90% of the Disinterested Shares;

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (ii) no event having occurred which would (a) make the Share Offer, the Option Offer, the acquisition of the Offer Shares or the cancellation of the Offer Options void, unenforceable or illegal; or (b) prohibit the implementation of the Offers; or (c) would impose any additional material conditions or obligations with respect to the Offers;
- (iii) all necessary consents in connection with the Offers and in connection with the withdrawal of listing of the Shares from the Stock Exchange which may be required under any existing contractual obligations of the Company being obtained and remaining in effect (i.e. the consents required to be given by the counterparty(ies) of any contracts entered into between the Company and such counterparty(ies) when the Company withdraws the listing of its Shares on the Stock Exchange, pursuant to the terms of such contracts);
- (iv) no relevant government, governmental, quasi-government, statutory or regulatory body, court or agency in Hong Kong, the Cayman Islands or any other jurisdictions having taken or instituted any action, proceeding, suit, investigation or enquiry (or enacted, made or proposed, and there will not continuing to be outstanding, any statute, regulation, demand or order) that would make the Offers or their implementation in accordance with their respective terms void, unenforceable, illegal or impracticable (or which would impose any material and adverse conditions or obligations with respect to the Offers or their implementation in accordance with their respective terms); and
- (v) since the Announcement Date, there having been no material adverse change in the business, assets, financial or trading positions or prospects or conditions (whether operational, legal or otherwise) of the Group (to an extent which is material in the context of the Group taken as a whole).

As at the at the Latest Practicable Date, the Offeror was not aware of any consent required under Condition (iii) above. Other than Condition (i), the Offeror reserves the right to waive, in whole or in part all or any of the Conditions set out above.

Pursuant to Note 2 to Rule 30.1 of the Takeovers Code, the Offeror should not invoke any or all of the Conditions (other than Condition (i)) so as to cause the Offers to lapse unless the circumstances which give rise to the right to invoke any such Condition are of material significance to the Offeror in the context of the Offers.

In accordance with Rule 15.3 of the Takeovers Code, the Offeror must publish an announcement when the Offers become unconditional as to acceptances and when the Offers become unconditional in all respects. The Offers must also remain open for acceptance for at least 14 days after the Share Offer becomes unconditional in all respects. Shareholders are reminded that the Offeror does not have any obligation to keep the Offers open for acceptance beyond this 14-day period.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As at the Latest Practicable Date, the Conditions have not been satisfied. If the above Conditions are not satisfied on or before the Closing Date, the Offers will lapse unless the Offers is extended by the Offeror in accordance with the Takeovers Code. The Offeror will issue an announcement in relation to the revision, extension or lapse of the Offers or the fulfilment of the Conditions in accordance with the Takeovers Code and the Listing Rules. In accordance with Rule 15.5 of the Takeovers Code, the latest time on which the Offers may become or may be declared unconditional as to acceptance is 7:00 p.m. on the 60th day after the posting of the Composite Document (or such later date to which the Executive may consent).

The Option Offer will be subject to and conditional upon the Share Offer becoming or being declared unconditional in all aspects. The last day for acceptance of the Option Offer shall be at least 14 days after the date on which the Offers become or are declared unconditional, and payment to accepting holders of Share Options under the Option Offer will be made within seven (7) Business Days (as defined under the Takeovers Code) following the later of the date on which the Option Offer becomes, or is declared, unconditional and the date of receipt of a duly completed acceptance.

WARNING: Shareholders, Optionholders and potential investors of the Company should note that the Offers are subject to the Conditions described in the paragraph headed “Conditions of the Offers” in the letter from Halcyon Securities in this Composite Document. The Conditions may or may not be fulfilled and accordingly the Offers may or may not proceed. Shareholders, Optionholders and potential investors of the Company are advised to exercise extreme caution when dealing in the Shares and other securities of the Company, and if they are in doubt about their positions, they should consult their professional advisers.

POSSIBLE COMPULSORY ACQUISITION AND WITHDRAWAL OF LISTING

Subject to the satisfaction of requirements under Section 88 of the Cayman Islands Companies Act and Rule 2.11 of the Takeovers Code, if the Offeror acquires not less than 90% of the Offer Shares (by virtue of the acceptances of the Share Offer or otherwise) and not less than 90% of the Disinterested Shares within four months of the posting of the Composite Document, the Offeror will privatise the Company by exercising the compulsory acquisition rights to which it is entitled under Rule 2.11 of the Takeovers Code and the Cayman Islands Companies Act to compulsorily acquire those Offer Shares not already owned and/or agreed to be acquired by the Offeror and/or the BVI PAC under the Share Offer on the same terms as the Share Offer, following which the listing of the Shares will be withdrawn from the Stock Exchange pursuant to Rule 6.15(1) of the Listing Rules. The Company will comply with the relevant requirements in the Listing Rules in this regard, and an application will be made for the withdrawal of the listing of the Shares from the Stock Exchange pursuant to Rule 6.15(1) of the Listing Rules.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Whilst it is the intention of the Offeror to privatise the Company, the Offeror's ability to exercise rights of compulsory acquisition in respect of the Offer Shares is dependent on the level of acceptances of the Share Offer reaching the prescribed level under the Cayman Islands Companies Act and on the requirements of Rule 2.11 of the Takeovers Code being satisfied.

In the event the Offeror is not able to effect the compulsory acquisition, the Offers will not become unconditional and will lapse and the Shares will remain listed on the Stock Exchange. The Offeror may take such steps as are necessary to ensure, or procure the Company to take such steps as are necessary to ensure, that the Company maintains an adequate public float so as to comply with the applicable requirements of the Listing Rules.

Based on the register of members of the Company and the disclosure of interests notices filed by Shareholders, the public float of the Company is approximately 25.6% as at the Latest Practicable Date, which is above the minimum of 25% as required under the Listing Rules.

The Stock Exchange has stated that if, at the close of the Offers, less than the minimum prescribed percentage applicable to the Company, being 25% of the issued Shares, are held by the public, or if the Stock Exchange believes that (i) a false market exists or may exist in the trading of the Shares or (ii) there are insufficient Shares in public hands to maintain an orderly market, the Stock Exchange will consider exercising its discretion to suspend dealings in the Shares.

If the Offeror does not effect compulsory acquisition of those Offer Shares not already acquired by the Offeror under the Share Offer, the Offeror intends the Company to remain listed on the Stock Exchange. The sole director of the Offeror, Mr. Li, has undertaken to the Stock Exchange to take appropriate steps to ensure that sufficient public float exists in the Shares as required under Rule 8.8 of the Listing Rules following the close of the Offers, if the Offeror does not effect compulsory acquisition and the Company remains listed on the Stock Exchange. Appropriate actions to be taken shall include placing down of sufficient number of accepted Offer Shares by the Offeror and/or procure the Company to issue additional Shares for this purpose. The Company and the Offeror will issue a separate announcement as and when necessary in this regard.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

PRINCIPAL FACTORS AND REASONS CONSIDERED

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

1. Information of the Group

1.1. Background information of the Group

The Company is a limited liability company incorporated in the Cayman Islands. The Shares have been listed on the Stock Exchange since 27 November 2013. As at 31 December 2022, the Group is engaged in three continuing business segments, namely (i) the processing segment which consists of dyeing and processing of differentiated polyester filament fabric; (ii) the properties investment segment with one of its key investment properties being Yongsheng Plaza, a 24-storey commercial building located in Xiaoshan Economic and Technological Development Zone, Hangzhou; and (iii) the environmental water project operation. The Group disposed of its business of provision of renovation, maintenance, alteration and additional services of buildings (“**RMAA Services**”) on 21 June 2022 to independent third party purchasers in view of deterioration of business environment as a result of COVID-19 pandemic.

As discussed in the 2022 Annual Report, the Group has restructured its business to focus its resources on the long-term development of dyeing and processing of differentiated polyester filament fabric, environmental water project operation and property investment operation and is also actively exploring solid waste treatment business and environmental water projects. The Group is expected to continue to expand its business into environmental protection-related industries by actively capitalising on the development opportunities in the environmental protection industry, in bid to achieve diversified business. However, the environmental water project operation of the Group has not reported any revenue for the six months ended 30 June 2022 and 2023 and for each of the three years ended 31 December 2020, 2021 and 2022 (“**FY2020**”, “**FY2021**” and “**FY2022**” respectively).

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

1.2. Financial information of the Group

(i) Financial performance

Set out below is a summary of the Group's audited consolidated financial performance for the three years ended FY2020, FY2021 and FY2022 as extracted from the 2021 Annual Report and the 2022 Annual Report and the unaudited consolidated financial information of the Group for the six months ended 30 June 2022 (“1H2022”) and 30 June 2023 (“1H2023”) as extracted from the 2023 Interim Results:

	For the six months ended 30 June		For the financial year ended 31 December		
	2023 RMB'000	2022 RMB'000 (Re-presented) (Note 1) (Unaudited)	2022 RMB'000 (Audited)	2021 RMB'000 (Re-presented) (Note 1) (Audited)	2020 RMB'000 (Audited)
Continuing operations					
Revenue					
Dyeing and processing	100,533	92,327	183,068	200,338	175,647
RMAA Services	-	-	-	-	185,115
Environmental water project operation	-	-	-	-	-
Properties investment	19,274	12,861	32,946	5,844	1,174
	<u>119,807</u>	<u>105,188</u>	<u>216,014</u>	<u>206,182</u>	<u>361,936</u>
Cost of sales	<u>(75,998)</u>	<u>(70,868)</u>	<u>(147,603)</u>	<u>(132,936)</u>	<u>(249,563)</u>
Gross profit	43,809	34,320	68,411	73,246	112,373
Other income and gains, net	6,267	9,813	18,250	1,557	24,919
Selling and distribution expenses	(1,112)	(644)	(1,415)	(2,493)	(1,428)
Administrative expenses	(20,997)	(19,964)	(39,784)	(39,827)	(35,508)
Remeasurement loss upon transfer of certain properties held for sale to investment properties	-	-	(70,359)	-	-
Fair value (loss)/gain on investment properties	-	-	(20,331)	(104,651)	369
Reversal of impairment/(impairment losses) on financial and contract assets, net	1,024	(309)	(2,024)	(46)	(10,366)
Finance costs	<u>(6,302)</u>	<u>(7,578)</u>	<u>(14,990)</u>	<u>(7,212)</u>	<u>(1,785)</u>
Profit/(loss) before tax from continuing operations	22,689	15,638	(62,242)	(79,426)	88,574
Income tax expense	<u>(6,388)</u>	<u>(3,815)</u>	<u>(9,884)</u>	<u>(3,153)</u>	<u>(17,431)</u>
Profit/(loss) for the period/year from continuing operations	<u>16,301</u>	<u>11,823</u>	<u>(72,126)</u>	<u>(82,579)</u>	<u>71,143</u>
Discontinued operation					
(Loss)/profit for the period/year from a discontinued operation	<u>-</u>	<u>(1,429)</u>	<u>14,164</u>	<u>(163,744)</u>	<u>-</u>
(Loss)/profit for the period/year	<u>16,301</u>	<u>10,394</u>	<u>(57,962)</u>	<u>(246,323)</u>	<u>71,143</u>

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

	For the six months ended 30 June		For the financial year ended 31 December		
	2023	2022	2022	2021	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		(Re-presented) (Note 1)		(Re-presented) (Note 1)	
	(Unaudited)	(Unaudited)	(Audited)	(Audited)	(Audited)
Profit/(loss) attributable to:					
Shareholders of the Company	18,449	11,222	(55,178)	(245,307)	72,685
Non-controlling interests	<u>(2,148)</u>	<u>(828)</u>	<u>(2,784)</u>	<u>(1,016)</u>	<u>(1,542)</u>
	<u>16,301</u>	<u>10,394</u>	<u>(57,962)</u>	<u>(246,323)</u>	<u>71,143</u>

Note 1: Financial figures of FY2021 and 1H2022 were restated in the 2022 Annual Report and the 2023 Interim Results respectively pursuant to the disposal of the RMAA Services in June 2022 as disclosed in the 2022 Annual Report and the 2023 Interim Results.

Revenue

Total revenue for continuing operations of the Group decreased by approximately 43.0% from approximately RMB361.9 million in FY2020 to approximately RMB206.2 million in FY2021, primarily due to the absence of revenue from RMAA Services following the disposal of RMAA Services (the “**Disposal**”) in June 2022 in view of the overall slowdown of the RMAA market in Hong Kong.

However, revenue from dyeing and processing segment for FY2021 showed improvement by around 14.1% as compared to that for FY2020. As disclosed in the 2021 Annual Report, in 2021, the severe outbreak of COVID-19 pandemic in Southeast Asia led to a lower operation rate and thus lowered the ability to support their own industrial chains. Nevertheless, China’s productivity remained relatively stable in 2021 due to the implementation of proactive COVID-19 pandemic preventive and control measures by the Chinese government, leading to a rebound in overseas orders at that time and therefore increased the demand for domestic textile products and accordingly, increased the demand for the Group’s dyeing and processing services during 2021. Revenue from properties investment segment for FY2021 also showed improvement by around 397.8% as compared to that for FY2020 mainly attributable to the commencement of leasing of offices and stores in Yongsheng Plaza during the FY2021.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Following the Disposal, revenue from the dyeing and processing segment of the Group has been the key revenue contributor to the total revenue of the Group, accounted for around 97.2%, 84.7% and 83.9% of the total revenue for continuing operations of the Group for FY2021, FY2022 and 1H2023 respectively.

Total revenue for continuing operations of the Group for FY2022 increased slightly by approximately 4.8% to approximately RMB216.0 million from approximately RMB206.2 million for FY2021, which was primarily due to the remarkable increase in revenue contributed by the property investment segment by approximately RMB27.1 million (or by around 463.8%) as a result of further increase in the occupancy rate of the commercial portion of Yongsheng Plaza, offset by the decrease in revenue contributed by the dyeing and processing segment by approximately RMB17.3 million (or by around 8.6%) as a result of changes in product structures to develop domestic apparel sales, decreased product unit price and high volatility in the prices of raw materials.

Total revenue for continuing operations of the Group during 1H2023 increased by approximately 13.9% from approximately RMB105.2 million in 1H2022 to approximately RMB119.8 million in 1H2023, which was primarily due to (i) the increase in rental income from Yongsheng Plaza as a result of the increase in occupancy rate since late 2022; and (ii) the increase in revenue from processing services of the dyeing and processing segment.

Gross profit and gross profit margin

The Group reported an improvement in gross profit of approximately RMB73.2 million with a margin of 35.5% for FY2021, as compared to that of approximately RMB112.4 million for FY2020 with a margin of 31.0%, primarily due to the Disposal.

Amongst the continuing operations of the Group, a decrease in gross profit to approximately RMB68.4 million with a margin of 31.7% was noted for FY2022. Such decrease was mainly due to decreased product unit price and high volatility in the prices of raw materials in the dyeing and processing segment, partially offset by the increase in rental income as a result of the improvement in the occupancy rate of Yongsheng Plaza in FY2022.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

During 1H2023, the Group reported an improvement in gross profit by approximately 27.6% from approximately RMB34.3 million with a margin of 32.6% in 1H2022 to approximately RMB43.8 million with a margin of 36.6% in 1H2023, which was primarily due to (i) the increase in rental income from Yongsheng Plaza as a result of the increase in occupancy rate since late 2022; and (ii) the increase in revenue from processing services and the decrease in raw materials cost of the dyeing and processing segment.

Other income and gains, net

Other income and gains (net) of approximately RMB1.6 million for FY2021 represented a decrease of around 93.8% from that of approximately RMB24.9 million for FY2020, primarily due to a recognition of fair value losses on financial assets at fair value through profit or loss of approximately RMB18.7 million in FY2021 mainly arising from the reduction in portfolio value of certain asset management investments (comprising, amongst others, inter-bank deposits, bonds and equity investment) as compared to fair value gains on financial assets at fair value through profit or loss of approximately RMB3.6 million in FY2021.

A significant improvement in other income and gains (net) to approximately RMB18.3 million for FY2022 was noted, which was primarily attributable to a recognition of fair value gains on financial assets at fair value through profit or loss of approximately RMB0.1 million in FY2022 mainly arising from the appreciation in portfolio value of the asset management investments (comprising, amongst others, inter-bank deposits, bonds and equity investment) as compared to a significant fair value losses on financial assets at fair value through profit or loss of approximately RMB18.7 million in FY2021.

A decrease in other income and gains (net) by approximately 36.1% from approximately RMB9.8 million in 1H2022 to approximately RMB6.3 million in 1H2023 was noted. Such drop was primarily due to a decrease in bank and other interest income in 1H2023, and fair value gains on financial assets at fair value through profit or loss in 1H2023 arising from the decrease in portfolio value of the asset management investments (comprising, amongst others, inter-bank deposits, bonds and equity investment), and an increase in fair value losses on derivative financial instruments in 1H2023 as compared to 1H2022.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Fair value (loss)/gain on investment properties and remeasurement loss upon transfer of certain properties held for sale to investment properties

Fair value loss on investment properties of approximately RMB104.7 million for FY2021 and approximately RMB20.3 million for FY2022, as compared to a fair value gain on investment properties amount of approximately RMB0.4 million for FY2020, were noted. The continuous fair value losses over the recent years were primarily due to adverse impacts on the overall property market in the PRC brought by negative factors such as COVID-19 control and slowdown of economic growth. No fair value gain or loss on investment properties was recorded during 1H2022 and 1H2023.

A remeasurement loss upon transfer of certain properties held for sale to investment properties of approximately RMB70.4 million was recorded for FY2022, which was primarily due to the reclassification of leased properties held for sale to completed investment properties upon the inception of operating leases. No remeasurement gain or loss upon transfer of certain properties held for sale to investment properties was recorded during 1H2022 and 1H2023.

Finance costs

There was a continuous increase in finance costs by around 304.0% from approximately RMB1.8 million in FY2020 to approximately RMB7.2 million in FY2021, and further by around 107.8% to approximately RMB15.0 million in FY2022. Reasons for such increases over the relevant years were due to the cessation of capitalisation, and the recognition in the profit or loss as expenses, of the borrowing costs relating to Yongsheng Plaza given the completion of construction of Yongsheng Plaza in FY2021. During 1H2023, a decrease in finance costs by approximately 16.8% from approximately RMB7.6 million in 1H2022 to approximately RMB6.3 million in 1H2023 was noted. Such decrease was mainly due to partial repayment of borrowings.

Profit/loss before tax from continuing operations

The Group reported a significant loss before tax from continuing operations of approximately RMB79.4 million in FY2021, as compared to a profit before tax from continuing operations of approximately RMB88.6 million for FY2020, primarily due to the decrease in total revenue of the Group following the Disposal coupled with the recognition of the fair value loss on investment properties of approximately RMB104.7 million in FY2021.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

An improved position of loss before tax from continuing operations of approximately RMB62.2 million was recorded in FY2022 and such improvement was primarily as a result of a significant drop in fair value loss on investment properties to approximately RMB20.3 million and was partially offset by the recognition of remeasurement loss upon transfer of certain properties held for sale to investment properties of approximately RMB70.4 million during FY2022.

An improvement in profit before tax from continuing operations by approximately 45.6% from approximately RMB15.6 million in 1H2022 to approximately RMB22.7 million in 1H2023 was noted. Such improvement was primarily attributable to the increment in gross profit during the period with reasons as discussed above.

Profit/loss attributable to shareholders of the Company

The Group reported a significant loss attributable to Shareholders of approximately RMB245.3 million in FY2021, as compared to a profit attributable to Shareholders of approximately RMB72.7 million for FY2020, primarily due to (i) the absence of revenue from the disposed RMAA Services segment in FY2021 as compared to its revenue contribution of approximately RMB185.1 million in FY2020 and (ii) a fair value loss on investment properties of approximately RMB104.7 million recognised in FY2021.

Loss attributable to Shareholders of the Company in FY2022 of approximately RMB55.2 million had reduced significantly from that of FY2021 as a result of the reduction in fair value loss on investment properties to approximately RMB20.3 million recognised in FY2022, partially netted off by a remeasurement loss upon transfer of certain properties held for sale to investment properties of approximately RMB70.4 million in FY2022 as mentioned above.

Profit attributable to shareholders of the Company during 1H2023 improved by approximately 64.4% from approximately RMB11.2 million in 1H2022 to approximately RMB18.4 million in 1H2023. Such improvement was primarily attributable to the increment in gross profit during the period with reasons as discussed above and the disposal of the then loss-making RMAA Services segment in June 2022.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(ii) *Financial position*

Set out below is a summary of the consolidated financial position of the Group as at 31 December 2021, 31 December 2022 and 30 June 2023, as extracted from the 2022 Annual Report and the 2023 Interim Results:

	30 June 2023	31 December 2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>	<i>(Audited)</i>
Non-current assets			
Property, plant and equipment	189,323	184,258	116,815
Investment properties	809,600	809,600	674,660
Right-of-use assets	32,695	33,337	10,624
Other non-current assets	<u>57,599</u>	<u>17,427</u>	<u>98,626</u>
	<u>1,089,217</u>	<u>1,044,622</u>	<u>900,725</u>
Current assets			
Completed properties held for sale	–	–	225,630
Trade, bills and lease receivables	70,960	61,738	62,578
Prepayments, deposits and other receivables	44,818	20,627	35,555
Loan receivables	86,534	139,494	158,409
Cash and cash equivalents	145,971	143,834	86,551
Other current assets	<u>46,284</u>	<u>40,145</u>	<u>85,138</u>
	<u>394,567</u>	<u>405,838</u>	<u>653,861</u>
Current liabilities			
Trade payables	69,541	79,811	99,954
Interest-bearing bank and other borrowings	125,660	76,132	69,995
Other current liabilities	<u>22,859</u>	<u>24,113</u>	<u>33,732</u>
	<u>218,060</u>	<u>180,056</u>	<u>203,681</u>
Non-current liabilities			
Interest-bearing bank and other borrowings	114,772	140,528	167,191
Deferred tax liabilities	16,222	13,697	9,396
Other non-current liabilities	<u>10,493</u>	<u>11,637</u>	<u>9,235</u>
	<u>141,487</u>	<u>165,862</u>	<u>185,822</u>
NET ASSETS	<u>1,124,237</u>	<u>1,104,542</u>	<u>1,165,083</u>

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

	30 June 2023	31 December 2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>	<i>(Audited)</i>
Equity			
Equity attributable to shareholders of the Company			
Share capital	5,854	5,854	6,063
Share premium	797,630	797,630	810,013
Other reserves	<u>319,988</u>	<u>298,403</u>	<u>344,235</u>
	1,123,472	1,101,887	1,160,311
Non-controlling interests	<u>765</u>	<u>2,655</u>	<u>4,772</u>
TOTAL EQUITY	<u>1,124,237</u>	<u>1,104,542</u>	<u>1,165,083</u>

Non-current assets of the Group as at 31 December 2021, 31 December 2022 and 30 June 2023 mainly comprised of, among others, property, plant and equipment and investment properties. Total non-current assets increased by approximately 16.0% from approximately RMB900.7 million as at 31 December 2021 to approximately RMB1,044.6 million as at 31 December 2022 mainly attributable to the increase in fair value of the investment properties by around 20.0% from approximately RMB674.7 million as at 31 December 2021 to approximately RMB809.6 million as at 31 December 2022 following a transfer from completed properties held for sale to investment properties during 2022. Non-current assets as at 30 June 2023 of approximately RMB1,089.2 million remained comparable to the balance as at 31 December 2022.

Current assets of the Group as at 31 December 2022 mainly comprised of, among other things, loan receivables and cash and cash equivalents. Total current assets decreased by around 37.9% as at 31 December 2022 mainly because of the absence of the balance of completed properties held for sale of approximately RMB225.6 million as at 31 December 2022 following the transfer of them to investment properties during FY2022, and was partially offset by the increase in cash and cash equivalents by approximately RMB57.3 million primarily attributable to the improved in loan receivables and absence of purchases of financial assets at fair value through profit or loss during FY2022. Current assets as at 30 June 2023 of approximately RMB394.6 million represented a slight decrease of approximately 2.8% as compared to the balance of approximately RMB405.8 million as at 31 December 2022, and such decrease was primarily attributable to the decrease in loan receivables due to redemption in trust loan.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Current liabilities of the Group as at 31 December 2021, 31 December 2022 and 30 June 2023 mainly comprised of, among other things, trade payables and interest-bearing bank and other borrowings. The balance as at 31 December 2022 decreased by around 11.6% from approximately RMB203.7 million as at 31 December 2021 to approximately RMB180.1 million as at 31 December 2022, which was mainly as a result of an improvement in trade payables due within 6 months from approximately RMB95.6 million as at 31 December 2021 to approximately RMB79.4 million as at 31 December 2022. Current liabilities as at 30 June 2023 of approximately RMB218.1 million represented an increase of around 21.1% as compared with the balance as at 31 December 2022. Such increase was mainly due to the increase in current interest-bearing bank and other borrowings for the business operations of the dyeing and processing segment.

Non-current liabilities of the Group as at 31 December 2021, 31 December 2022 and 30 June 2023 mainly comprised of, among others, interest-bearing bank and other borrowings. Total non-current liabilities of the Group as at 31 December 2022 decreased from approximately RMB185.8 million as at 31 December 2021 to approximately RMB165.9 million as at 31 December 2022 mainly as a result of earlier repayment of partial secured bank loans maturing in June 2024 during the year. Non-current liabilities as at 30 June 2023 of approximately RMB141.5 million represented a decrease of around 14.7% as compared with the balance as at 31 December 2022. Such decrease was mainly due to the drop in non-current interest-bearing bank and other borrowings in relation to the business operations of the dyeing and processing segment.

Gearing ratio (as represented by total borrowings over equity attributable to the shareholders) were approximately 0.20 times as at 31 December 2021, approximately 0.20 times as at 31 December 2022 and approximately 0.21 times as at 30 June 2023, which demonstrated a relatively stable debt level of the Group during the two years.

Equity attributable to shareholders of the Company (“NAV”) decreased marginally by around 5.0% from approximately RMB1,160.3 million as at 31 December 2021 to approximately RMB1,101.9 million as at 31 December 2022, and improved by around 2.0% to approximately RMB1,123.5 million as at 30 June 2023. NAV per Share, based on the total number of issued Shares of 708,008,090 as at the Latest Practicable Date, was approximately RMB1.56 (equivalent to approximately HK\$1.71) as at 31 December 2022 and approximately RMB1.59 (equivalent to approximately HK\$1.75) as at 30 June 2023. An interim dividend of HK\$0.01 (equivalent to RMB0.0083) per Share was declared and paid during FY2021, whilst no dividend has been declared and paid by the Company to its Shareholders for FY2022 and 1H2023.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

1.3. Valuation on property interests of the Group

The property interests of the Group (individually, the “**Property**”, together, the “**Properties**”) have been valued by the Valuer. The full text of the valuation report and certificate of the Properties for their respective market value in existing state as at 31 May 2023 (the “**Valuation Report**”) is set out in Appendix III to the Composite Document. According to the Valuation Report, the market values in existing state of the Properties attributable to the Group in the PRC are approximately RMB586.7 million as at 31 May 2023 (the “**Valuation**”).

We have reviewed the Valuation Report and discussed with the Valuer the methodology of and bases and assumptions adopted for the valuations and the adjustments made to arrive at the Valuation. We noted that the Valuer has valued the Properties held for owner occupation by the Group in the PRC for its operation of business, being the properties referred to under group I as set out under the Valuation Report, using the depreciated replacement cost approach. As disclosed in the Valuation Report, such approach is defined as “the current cost of replacing an asset with its modern equivalent asset less deduction for physical deterioration and all the relevant forms of obsolescence and optimization” and is based on an estimation of the market value for the existing use of the land, plus the current cost of replacement (reproduction) of the building, including the improvements, less deductions for physical deterioration and all relevant forms of obsolescence and optimization.

We note the Valuer has adopted the term and reversion method under the income approach (the “**Income Approach**”) to determine the market value for the two Properties referred to under group II, as they are currently held for investment purposes. We understand the Income Approach takes into account the term value of the properties by capitalizing the rental income over the existing lease terms and the reversionary value by capitalizing the current market rental income of the properties until the end of the land use right terms. The current market rent adopted in determining the reversionary value is based on the findings of rental comparables in the locality which share similar characteristics with the subject properties. When determining the parameter of capitalization rate or market yield, reference has been made to the current sale price and rental income of the properties in the locality which share similar characteristics with the subject properties. The Income Approach estimates values of the properties by taking into considerations of the existing rental level and current market condition, without specifically involving the forecasting of future profits.

The above valuation methodologies for the Properties are, in our opinion, commonly used and reasonable approaches in establishing the market values of the Properties.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As further disclosed in the Valuation Report, based on the legal opinion provided to the Valuer by the Group's PRC legal adviser, certain portion of the Properties in group II have sale restriction (the "**Restricted Portion**") and such sale restriction, which include the form of strata-title sale restrictions, was imposed by the government pursuant to the terms of the relevant land use right contract and real estate ownership certificates. We have discussed with the Company and the PRC legal adviser and according to the PRC legal opinion, the PRC legal adviser is of the view that it is difficult and unlikely to obtain the government's approval in relation to the sale of the Restricted Portion. Given the sales restriction, the Valuer considers such Restricted Portion of the Properties non-transferrable and therefore has assigned no attributable market value to the Restricted Portion of the Property in the Valuation. As stated in the Valuation Report, the attributable referenced market value of the Restricted Portion, which was arrived at based on the market approach for the self-occupied portion and the Income Approach for the portion currently being leased out, was appropriately RMB376.0 million as at 31 May 2023. As further stated in the Valuation Report, the Valuer has assigned no commercial value to the 3-storey car park basement with a total number of 477 car parking spaces in Yongsheng Plaza since no valid title certificates as regard the 3-storey car park have been obtained. It is stated in the Valuation Report that assuming valid title certificates were obtained for such car park basement rendering their free transfer in the market, the referenced estimated value of the 3-storey car park basement, which was arrived at based on the market approach for the self-use portion and the Income Approach for the portion currently being leased out, would be approximately RMB65.4 million as at 31 May 2023. In this regard, we have discussed with the PRC legal adviser that, according to the PRC legal opinion, the Group only has the rights to use the car park basement, however, it would not be possible for the Group to obtain legal title certificates for the car park basement under the prevailing rules and regulations.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In addition, in compliance with the requirements under note (1)(d) to Rule 13.80 of the Listing Rules, we have assessed the qualification and experience of the responsible person of Valuer for its engagement as the independent professional to value the Properties. We note that Mr. Vincent C B Pang (“**Mr. Pang**”), the person in charge of the Valuation, is a professional Chartered Surveyor and a registered valuer of Royal Institute of Chartered Surveyors (“**RICS**”) who has over 10 years of experience in the valuation of properties in Hong Kong, the PRC, the U.S., East and Southeast Asia. Although the Valuer has been previously engaged by the Company for property valuations, we are confirmed by both the Company and the Valuer that neither of them is aware of any relationship which may render them not independent. Furthermore, we have discussed with and understand from the Valuer that the Valuer is of the view that it has complied and satisfies the requirements under Rule 11.1(b) of the Takeovers Code. We have also researched and noted that Mr. Pang has previously been the responsible person and the authorised signatory for valuation reports relating to other Takeovers Code related transactions, including, the proposal for the privatisation of Xiezhong International Holdings Limited (document dated 24 May 2021) and the proposal to take private of Golden Throat (Stock Code: 06896) (document dated 29 October 2021). We have also reviewed the Valuer’s terms of engagement and noted that the scope of work is appropriate for arriving at the opinion of the market value of the Properties. Nothing has come to our attention to suggest any formal or informal representation to the Valuer that contravenes with our understanding of the information, to a material extent, as set out in the Composite Document. In conducting the Valuation, the Valuer has confirmed compliance with all the requirements as set out in Chapter 5 and Practice Note 12 of the Listing Rules, Rule 11 of the Takeovers Code, the RICS Valuation – Global Standards 2022 published by the RICS and the International Valuation Standards published from time to time by the International Valuation Standards Council.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

1.4. Adjusted NAV

In evaluating the Offers, we have taken into account the adjusted consolidated net assets attributable to the Shareholders (the “Adjusted NAV”), which is provided by the Company and calculated based on the audited consolidated net assets attributable to the Shareholders as at 30 June 2023, adjusted with reference to the Valuation as at 31 May 2023. Details of the adjustment are set out in the table below.

	<i>RMB'000</i>
Consolidated net assets attributable to the Shareholders as at 30 June 2023	1,123,472
<i>Add:</i>	
Revaluation surplus arising from the Valuation (Note 1), net of relevant deferred tax (Note 2):	
Group I Properties	82,069
Group II Properties	<u>1,088</u>
Adjusted NAV	<u><u>1,206,629</u></u>
Adjusted NAV per Share (RMB) (Note 3)	1.70
Adjusted NAV per Share (HK\$) (Note 3)	1.87
Offer Price (HK\$)	1.00
Discount represented by the Offer Price over Adjusted NAV per Share	46.52%

Notes:

- This represents a revaluation surplus calculated by reference to the fair value of the property interests (excluding the Restricted Portion of the Properties and the car parking spaces which are non-transferrable as discussed under the section headed “1.3 Valuation on property interests of the Group” above) held by the Group as at 31 May 2023 as disclosed in the Valuation Report, net of the book value of such property interests as of 30 June 2023 and relevant deferred tax associated in the respective jurisdictions.*
- Deferred PRC tax is calculated based on the appreciated value of the Properties multiplied by the applicable tax rate of 15% (for the subsidiary of the Group being qualified as a High and New Technology Enterprise) and 25% respectively.*
- Based on 708,008,090 Shares in issue as at the Latest Practicable Date and the exchange rate of RMB1.0:HK\$1.1 per the Announcement.*

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As set out in the above table, the Offer Price of HK\$1.00 per Offer Share represents a discount of approximately 46.52% to the Adjusted NAV per Share of approximately HK\$1.87.

We have reviewed the Valuation Report and the calculation of Adjusted NAV as outlined above and based on the Valuation, we note that the largest attribution of revaluation surplus (net of relevant deferred tax) of approximately RMB82.1 million was attributable to Properties under group I, which are industrial plants and buildings held for self-use, and such appreciation is mainly attributable to the fact that the two self-occupied Properties have been stated at cost in the consolidated financial statements of the Group since their construction or acquisition which were in accordance with the accounting policy adopted by the Group. We have further discussed and understand from the Management that the Properties under group I have been occupied by the Group to carry out its business operations and according to the Directors, the Group has no intention to dispose of or transfer the relevant interests in the Properties as they are used to carry out its business operations. Accordingly, such appreciation amount is unlikely to be realised.

Separately, we noted that the appreciation in value of the two investment Properties under group II of the Valuation Report, is relatively insignificant in comparison.

With reference to the section under the heading “Intention of the Offeror in relation to the Company” in the letter from Halcyon Securities in the Composite Document, it is the intention of the Offeror to continue the existing businesses of the Group upon completion of the Offers, and to develop deeper synergies with the Group’s overall businesses, explore new development opportunities and implement long-term growth strategies. It is further stated that as at the Latest Practicable Date, there is no plan to change the composition of the Board or to dispose of or transfer any relevant interests in its self-owned properties that are used for carrying out the Group’s business operation. Although (i) the appreciation in value of the Properties is mainly attributable to the two self-occupied Properties under group I which are used by the Group for carrying out its business operations; and (ii) as discussed above, the Group has no intention to dispose of or transfer the relevant interests in the two self-owned Properties under group I as they are used for carrying out its business operations we have nevertheless taken into consideration of the Adjusted NAV and the discount represented by the Offer Price to the Adjusted NAV along with our analyses of historical discount of Share price to NAV per Share and Privatisation Precedents (as defined below). Please see the sections headed “6. Historical discount of market price of the Shares to NAV per Share” and “7. Privatisation precedents” below for reference and information of the Shareholders.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

2. Information on the Offeror

The Offeror is a company incorporated in the British Virgin Islands with limited liability, the issued shares of which are directly owned by Ever Thrive and Astute as to 50.0% and 50.0% respectively. Mr. Li is the ultimate controlling shareholder of each of the Offeror, Ever Thrive and Astute. As disclosed in the Composite Document, as at the Latest Practicable Date, Mr. Li beneficially owned 90.0% of the issued share capital of Astute which in turn beneficially held 274,661,290 Shares. Mr. Li also beneficially owned approximately 95.7% of the issued share capital of Ever Thrive which in turn beneficially held 249,401,700 Shares. The Offeror is an investment holding company and has not been engaged in any other business activities since its incorporation.

Mr. Li is an executive Director and the chairman of the Board. He has more than 30 years of experience in textile and trading industry, and is mainly responsible for overall business strategy and management of the Group.

As at the Latest Practicable Date, the Offeror and the Offeror Concert Parties held 526,738,667 Shares in aggregate, representing approximately 74.4% of the total number of issued Shares.

3. Prospect of the Group

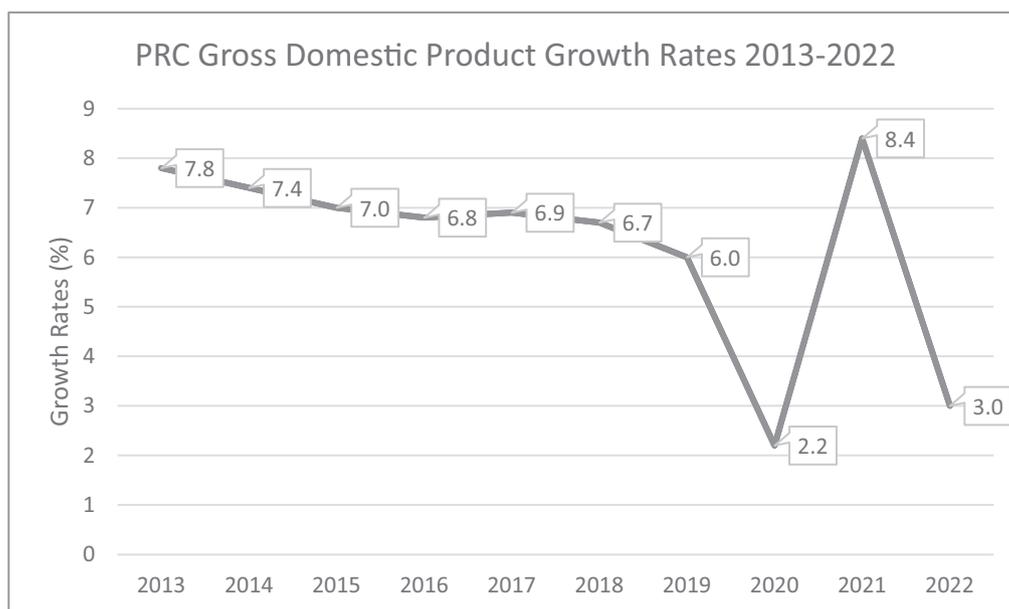
As discussed above under the section headed “1.1 Background information of the Group” above, the Group is engaged in two continuing business segments with reportable revenues, namely the processing segment, which consist of dyeing and processing of differentiated polyester filament fabric and properties investment segment.

Market demand for China’s textile and apparel products industry, being the key customers of the Group, have been the key driver to the Group’s dyeing and processing business. Whilst a slowdown in overall China economic growth would inevitably affect, among others, the demand on non-essential items including home textile and apparel products and in turn, led to a weakened demand for the Group’s dyeing and processing services, we consider the prospect of the Group’s dyeing and processing business segments are highly dependent on the growth of the PRC economy. In this respect, we have reviewed the statistics published on the National Bureau of Statistics of China (“NBS”) and noted that the gross domestic product (“GDP”) of China has, although showed recovery from the COVID-19 pandemic and reported a growth rate of approximately 3.0% in 2022 as compared to 2021, the actual extent of economic recovery in the PRC is still uncertain as compared to the average GDP growth rate of approximately 6.9% prior to COVID-19 pandemic between 2013 and 2019. In addition, we consider recent economic performance of China is still showing signs of slowing down given reported GDP growth of around 2.2% in the first quarter of 2023 and around 0.8% in the second quarter of 2023, as compared to the

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

respective prior quarter. Future economic growth in the PRC is also inevitably subject to uncertainties casted by, among other things, multiple macroeconomic factors including geopolitical tensions, high inflation and tightened financial conditions.

Gross Domestic Product Growth Rates 2018-2022



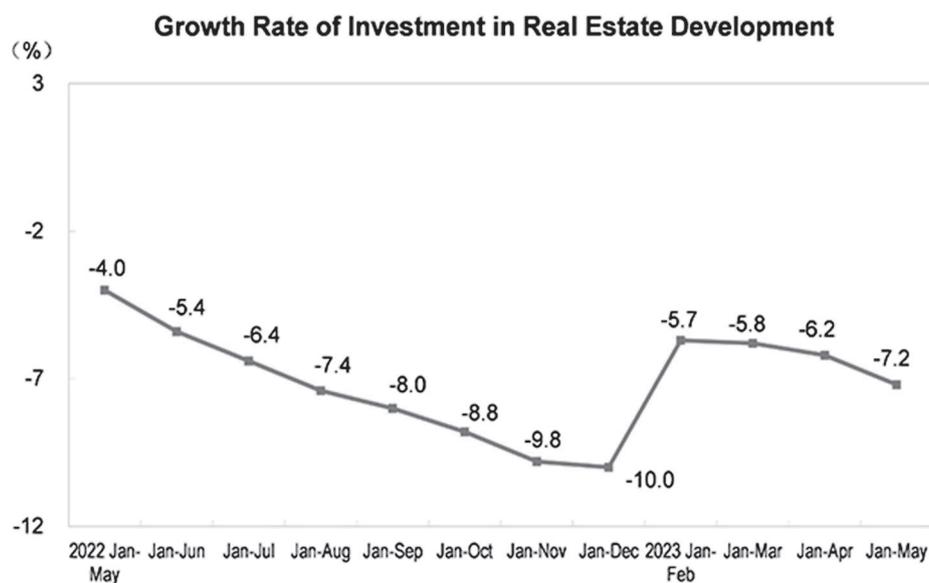
Source: NBS

In particular, for the textile industry in the PRC, it was also reported by NBS that business revenue and total profits of industrial enterprises above the designated size (with revenue from principal activities over RMB20 million as defined under the statistics) in the textile industry has shown an overall decrease by around 1.1% and 17.8% respectively in 2022, as well as an overall decrease by around 5.2% and 27.8% respectively during the first five months in 2023. On the other hand, uncertainties casted by, among other things, global economic growth slowdown, geopolitical tensions and high inflation have also affected the foreign sales of the PRC textile industry. As also disclosed in the 2023 Interim Results, in 2023, declining trend has been noted in the import of major home textile consumer markets, such as the US, Europe and Japan being, to the best knowledge of the Company, some of the key export markets of the Company's key domestic customers, from the PRC and Southeast Asia, which will impose dual pressures on and decrease in, amongst others, the export of the home textile industry of the PRC. As further disclosed in the 2023 Interim Results, the data of international shipping shows that there was no notable improvement in the consumer market of the US during the second quarter of 2023 with a decrease of approximately 20% in maritime container shipments from Asia to the US in May 2023 as compared, with that of the same period in the last year and a decrease of approximately 19% in almost 60% of Mainland China-to-US container shipments.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We note that the Group's other revenue generating segment, namely properties investment segment, has reported growth in revenue over the last three financial years from approximately RMB1.2 million for FY2020, to approximately RMB5.8 million in FY2021 to approximately RMB32.9 million in FY2022. We note that the growth in revenue generated from the properties investment segment was mainly due to the completion of the construction and the interior decoration of Yongsheng Plaza in 2021 which began generating stable rental income for the Group and according to the 2022 Annual Report, the leasing of shops was almost completed and lease agreements for most of the office floors were successfully signed. While we concur that the rental income can generate stable income for the Group, however, whether or not such income can continue or increase in the future is still uncertain as it would depend on overall growth of economy which is a likely dependent factor for tenant demand. As discussed in the paragraphs above, although the PRC economy has shown signs of recovery since the COVID-19 pandemic, however, such recovery or future growth remain largely vague in view of the recent slowdown of the PRC economy based on the published GDP and other statistics as discussed above. In addition, based on the statistics published by NBS, investments in real estate development in the PRC fell for the first time since 2013 by approximately 10% in 2022. Average growth rate before the COVID-19 pandemic (from 2013 to 2019), was approximately 7.5%. As shown in the chart below which is extracted from a release in June by NBS, slight improvement has been observed in early 2023 in investment in real estate development, however, a downward trend has been observed again in the first five month of 2023.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER



Source: NBS

Further, according to the sales figures of office buildings and properties for business purpose in the PRC as published by NBS, sales of office buildings and properties for business purpose over the recent years were noted and an significant drop since 2018, with accumulated decrease in sales of around 27.9% and 37.5% respectively between 2018 and 2022 and an average year-on-year decrease of around 7.7% and 10.9% respectively between the same period. According to NBS, sales of office buildings and buildings for commercial business has also recorded negative growth rates of -17.4% and -18.2% year-on-year respectively for the first five months in 2023. As such, the prospect for the Group's properties investment segment as a whole is still uncertain.

We noted that the Group has also initiated its diversification of business into environmental protection-related industries by actively capitalising on the development opportunities in the environmental protection industry, in bid to achieve diversified business since 2020. However, as at the Latest Practicable Date, the environmental water project operation of the Group has not generated any revenue and therefore whether or not the Group can successfully implement its business initiative in the new segment also remain unguaranteed.

Despite the Company's profitability reported for 1H2023, in light of the above and the fact that the Group has been loss-making for the past two financial years, business prospects of the Group could be subject to challenges and there is no guarantee that the financial performance of the Group would be maintained or improved in the near future.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

4. Intentions of the Offeror

As stated in the letter from Halcyon Securities in the Composite Document, the Offeror believes that the Offers provide the following benefits to (i) the Offeror and the Company; and (ii) the holders of the Offer Shares and the Optionholders.

Amidst the lingering effects of the COVID-19 pandemic and the tension resulting from the international trade conflicts, the Offeror has confidence in the growth potential of the (i) dyeing and processing of differentiated polyester filament fabric in the PRC; (ii) properties investment in the PRC; and (iii) environmental water project operation in the South-east Asia.

Due to the low liquidity in the trading of its Shares, the Company's current listing status on the Stock Exchange no longer serves a sufficient source of funding for the Company's business and growth. The Offeror considers that the privatisation of the Company will facilitate business integration between the companies owned by Mr. Li, which are principally engaged in production of differentiated polyester filament yarn and cotton textile, and the Company. The Offeror expects that, after the privatisation of the Company, the dyeing and processing procedures for textiles produced by companies owned by Mr. Li can be entrusted to the Company. In addition, Mr. Li can benefit from the customer network of the Company and further sell finished textile product to downstream customers. Such integration will form a complete production and distribution chain of polyester filament textile which provides the Offeror with greater flexibility to support the future business development of the Company through onshore resources without being subjected to regulatory restrictions and compliance obligations and procedures associated with the listing status of the Company on the Stock Exchange. Consequently, listing-related and compliance-related costs and expenses will also be saved when the Group is taken private.

Furthermore, the Offeror believes that the Share Offer provides an opportunity for the Shareholders to realise their Shares (which have a relatively low degree of market liquidity) in return for cash. In this regard, the Offeror noted that the trading volume of the Shares on the Stock Exchange has been generally very low. The average daily trading volume of the Shares during the period from the beginning of 2023 to the Last Trading Day was less than 30,000 Shares (representing approximately 0.0004% of the total number of Shares in issue as at the Last Trading Day). During the six-month period immediately prior to and including the Last Trading Day, the highest closing price of the Shares as quoted on the Stock Exchange was HK\$0.91 per Share on 13 December 2022, 14 December 2022 and 11 January 2023, and the lowest closing price of the Shares as quoted on the Stock Exchange was HK\$0.58 per Share on 18 May 2023, 19 May 2023, 31 May 2023 and 1 June 2023. The Offeror believes that the Offer Price represents a premium to the prices at which the market had valued the Company and has reflected the potential value of the development of the business of the Company in the next few years under its current state and provides an opportunity for the holders of the Offer Shares and the Optionholders to immediately realise

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

their investments. The Offers therefore allow the holders of the Offer Shares and the Optionholders a chance to redeploy capital from accepting the Offers into other investment opportunities that they may consider more attractive in the current market environment.

5. Analysis on price performance and trading liquidity of the Shares

5.1. Historical price performance of the Shares

Set out below is the movement of the closing prices of the Shares during the period from 4 January 2021 to the Latest Practicable Date (the “**Review Period**”), and the announcements of the Company relating to certain corporate events that took place during the Review Period. The Review Period, which covers a period of more than 24 months, is considered to represent a sufficient period of time to provide a general overview on the recent market performance of the Shares for the purpose of this analysis:



Source: Bloomberg

The closing prices of the Shares ranged from HK\$0.58 to HK\$2.09 during the period between 4 January 2021 and the Last Trading Day (both dates inclusive, the “**Pre-announcement Period**”), with an average closing price of around HK\$1.05. As also shown in the chart above, Share closing price has been at price levels consistently below the Offer Price since 4 January 2022.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Share closing prices led a general decreasing trend during the year of 2021 until March 2022. As shown in the chart above, the Share closing price has demonstrated a gradual and continuous decrease from HK\$2.09 per Share as at 4 January 2021, to HK\$0.69 per Share as at 11 March 2022, save for the sudden jump back to HK\$1.30 and HK\$1.26 per Share on 30 December and 31 December 2021 respectively. Shortly after the publication of the profit warning announcement for FY2021 by the Company on 14 March 2022, Share closing price surged by around 18.8% from HK\$0.69 per Share on 23 March 2022 to HK\$0.82 per Share on 24 March 2022, and further improved to reach HK\$0.95 per Share on 14, 19 and 22 April 2022. We are advised by the Company that the Company is not aware of any reasons for the increase in Share price during the period. Despite of the temporary improvement in Share closing price in April and until mid-May 2022, Share closing price however continued its downward trend again and fell by around 23.1% from HK\$0.91 per Share on 13 May 2022 to HK\$0.70 per Share on 16 May 2022, and further down to reached its trough of HK\$0.58 per Share on 7 June and 8 June 2022. We are advised by the Company that the Company is not aware of any reasons for the drop in Share price during the period. Since then the Share closing price fluctuated within a range of approximately HK\$0.59 and approximately HK\$0.76 between 8 June 2022 and 14 October 2023. Since mid-October 2022, Share closing price started to pick up slightly to price levels above HK\$0.8 each for the majority of time until early February 2023 before it led another overall downward trend. Despite the publication of the profit alert announcement by the Company regarding the reduction in loss for the FY2022 on 27 February 2023 (after trading hours) and following which the Share closing price improved from HK\$0.74 on 27 February 2023 to HK\$0.84 on 8 March 2023, Share closing price led another downward trend and reached its trough again to reach HK\$0.58 on 18 May 2023. Since then, the Share closing price fluctuated in a range between HK\$0.58 and HK\$0.65 each, and the trading of the Share closed at HK\$0.63 per Share on 8 June 2023, being the Last Trading Date prior to the suspension of trading in Shares pending the publication of the Announcement.

Following the publication of the Announcement in relation to the Offers and the resumption of trading on 26 June 2023, the Share closing price increased by around 49.2% to HK\$0.94 each on 26 June 2023. Since then, the Share closing price fluctuated in a narrow range between HK\$0.93 and HK\$0.96 each, and the closing price per Share as at Latest Practicable Date was HK\$0.95.

In summary, the Offer Price of HK\$1.0 per Share represents:

- (i) a premium of approximately 5.3% over the closing price of HK\$0.950 per Shares as quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) a premium of approximately 58.7% over the closing price of HK\$0.630 per Shares as quoted on the Stock Exchange on the Last Trading Day;

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (iii) a premium of approximately 55.8% over the average closing price of approximately HK\$0.642 per Share based on the daily closing prices as quoted on the Stock Exchange for the last five consecutive trading days immediately prior to and including the Lasting Trading Day;
- (iv) a premium of approximately 61.0% over the average closing price of approximately HK\$0.621 per Share based on the daily closing prices as quoted on the Stock Exchange for the last 10 consecutive trading days immediately prior to and including the Last Trading Day;
- (v) a premium of approximately 52.9% over the average closing price of approximately HK\$0.654 per Share based on the daily closing prices as quoted on the Stock Exchange for the last 30 consecutive trading days immediately prior to and including the Last Trading Day;
- (vi) a premium of approximately 38.5% over the average closing price of approximately HK\$0.722 per Share based on the daily closing prices as quoted on the Stock Exchange for the last 60 consecutive trading days immediately prior to and including the Last Trading Day;
- (vii) a discount of approximately 41.5% to the audited consolidated net asset attributed to shareholders of the Company of approximately RMB1.56 (equivalent to approximately HK\$1.71) per Share as at 31 December 2022 (based on the audited consolidated equity attributable to the Shareholders of approximately RMB1,102 million (equivalent to approximately HK\$1,212 million) as at 31 December 2022 and 708,008,090 Shares in issue as at the Latest Practicable Date);
- (viii) a discount of approximately 42.9% of the unaudited consolidated net asset attributed to shareholders of the Company of approximately RMB1.59 (equivalent to approximately HK\$1.75) per Share as at 30 June 2023 (based on the unaudited consolidated equity attributable to the Shareholders of approximately RMB1,124 million (equivalent to approximately HK\$1,236 million) as at 30 June 2023 and 708,008,090 Shares in issue as at the Latest Practicable Date); and
- (ix) a discount of approximately 46.5% to the Adjusted NAV of approximately RMB1.70 (equivalent to approximately HK\$1.87) per Share after taking into account of the Valuation as set out in Appendix III to this Composite Document.

The recent surge of the Share closing price following the publication of the Announcement are likely to be driven by the Offers and sustainability of the current Share price level could be, therefore, uncertain.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

5.2. Trading liquidity of the Shares

Set out below in the table are the average daily trading volume of the Shares and the percentages of the average daily trading volume to the total issued Shares and public float of respectively during the Review Period:

	Average daily trading volume of the Shares	Approximate % of average daily trading volume to the total issued Shares (Note 1)	Approximate % of average daily trading volume to the public float of the Shares (Note 2)
2021			
January	130,625	0.02%	0.05%
February	322,083	0.04%	0.13%
March	374,130	0.05%	0.15%
April	598,684	0.08%	0.24%
May	152,375	0.02%	0.06%
June	113,571	0.02%	0.05%
July	493,333	0.07%	0.20%
August	2,386	0.00%	0.00%
September	192,024	0.03%	0.08%
October	62,917	0.01%	0.03%
November	103,977	0.01%	0.04%
December	467,273	0.06%	0.19%
2022			
January	1,562,857	0.21%	0.76%
February	718,824	0.10%	0.35%
March	349,130	0.05%	0.17%
April	419,583	0.06%	0.20%
May	3,724,875	0.51%	1.81%
June	2,498,571	0.35%	1.38%
July	673,500	0.10%	0.37%
August	627,283	0.09%	0.35%
September	1,220,119	0.17%	0.67%
October	491,875	0.07%	0.27%
November	451,932	0.06%	0.25%
December	44,250	0.01%	0.02%

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

	Average daily trading volume of the Shares	Approximate % of average daily trading volume to the total issued Shares (Note 1)	Approximate % of average daily trading volume to the public float of the Shares (Note 2)
2023			
January	21,111	0.00%	0.01%
February	35,750	0.01%	0.02%
March	30,870	0.00%	0.02%
April	17,206	0.00%	0.01%
May	29,762	0.00%	0.02%
From 1 June to 8 June 2023 (being the Last Trading Day)	4,583	0.00%	0.00%
Average during the Pre-announcement Period	545,974	0.08%	0.30%
From 26 June 2023 to the Latest Practicable Date (Note 3)	382,167	0.05%	0.21%

Source: Website of the Stock Exchange and Bloomberg

Notes:

1. The calculation is based on the average daily trading volumes of the Shares divided by the total number of issued Shares at the end of each month of the Last Trading Day or as at the Latest Practicable Date, as applicable.
2. The total number of Shares held by the public is calculated based on the total number of issued Shares excluding those held by the Offeror and the Offeror Concert Parties, at the end of each month of the Last Trading Day or as at the Latest Practicable Date, as applicable.
3. 26 June 2023 being the first trading date immediately following the publication of the Announcement.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

From the table above, which outlines the average daily trading volume as a percentage to the total number of issued Shares and as a percentage to the public float, save for the relatively higher liquidity in January, May, June and September 2022, we note that the average daily trading volume of the Shares has been thin. The average daily trading volume of the Shares during the Pre-announcement Period was 545,974 Shares, representing around 0.08% of the total number of issued Shares and around 0.30% of the public float. After the publication of the Announcement, the average daily trading volume of the Shares was approximately 382,167 Shares (representing around 0.05% and 0.21% of the total issued Shares and of the Shares held by the public respectively) in the period from 26 June 2023 to the Latest Practicable Date, and the trading volume of the Shares was still relatively thin.

Given the historical thin trading volume of the Shares, it is uncertain whether there would be sufficient liquidity in the Shares for the Independent Shareholders to dispose of a significant number of Shares in the open market without causing an adverse impact on the market price of the Shares. The Offers, therefore, represents an opportunity for the Independent Shareholders, particularly for those who hold a large volume of Shares, to dispose of their entire holdings at the Offer Price if they so wish.

6. Historical discount of market price of the Shares to NAV per Share

We note that the Offer Price of HK\$1.0 represents a discount of (i) approximately 41.5% to the audited NAV per Share of approximately RMB1.56 (equivalent to approximately HK\$1.71) as at 31 December 2022; (ii) approximately 42.9% to the latest published unaudited NAV per Share as at 30 June 2023 of approximately RMB1.59 (equivalent to approximately HK\$1.75); and (iii) approximately 46.5% to the Adjusted NAV per Share of approximately RMB1.70 (equivalent to approximately HK\$1.87).

In assessing the reasonableness of the discount to the NAV per Share as at 31 December 2022 and 30 June 2023 and the Adjusted NAV per Share as represented by the Offer Price, we executed a comparable company analysis to ascertain if such phenomena is common among industry peers. However, based on our review, which is conducted based on the criteria of companies whose shares are listed on the Main Board of the Stock Exchange which are primarily engaged in the provision of services for dyeing and processing of fabrics with no less than 50% of its total revenue generated from the service fees charged in its latest financial year, we are not able to identify any listed companies to satisfy the purpose of our research.

We have also separately reviewed the performance of the Share price against the NAV since 30 March 2021 (being the first trading day immediately after the Group released its annual results for the financial year ended 31 December 2020) up to the Last Trading Day,

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

being 8 June 2023, which we consider to be a reasonably sufficient period of time to provide a general overview of the recent market performance of the Shares as compared to the NAV per Share for the purpose of this analysis:

Period	Published consolidated NAV per Share HK\$	Closing price per Share			Premium/(Discount) to NAV per Share		
		Highest	Lowest	Average	Highest	Lowest	Average
		HK\$	HK\$	HK\$	Approx. %	Approx. %	Approx. %
29 Mar 2021 ⁽¹⁾ to 30 Aug 2021	2.12 ⁽²⁾	1.85	1.25	1.53	(12.74)	(41.04)	(27.83)
31 Aug 2021 ⁽¹⁾ to 30 Mar 2022	2.11 ⁽²⁾	1.31	0.69	0.97	(37.91)	(67.30)	(54.03)
31 Mar 2022 ⁽¹⁾ to 29 Aug 2022	1.75 ⁽²⁾	0.95	0.58	0.73	(45.71)	(66.86)	(58.29)
30 Aug 2022 ⁽¹⁾ to 30 Mar 2023	1.78 ⁽²⁾	0.94	0.60	0.80	(47.19)	(66.29)	(55.06)
31 Mar 2023 ⁽¹⁾ to 8 Jun 2023 ⁽³⁾	1.69 ⁽²⁾	0.84	0.58	0.70	(50.30)	(65.68)	(58.58)
						Average	(50.76)

Notes:

1. *The first trading day immediately after the Company released its full year or interim results announcements.*
2. *Based on the equity attributable to the Shareholders as extracted from the Company's respective annual reports or interim reports, divided by the total number of Shares in issue as at the respective period-end date.*
3. *Being the Last Trading Day.*

Based on the analysis set out above, we note that, since 29 March 2021, being the date on which the Company published its annual results announcement for the year ended 31 December 2020 up to the Last Trading Date, the average closing price of the Shares for each of the respective periods indicated above were at a discount (the “**Average Discount(s)**”) to the then NAV per Share. We consider the fact that the Share price being consistently lower than the NAV per Share was the result of investors' independent assessment and appraisal of the Company's business and financial performance, business prospects and other factors including but not limited to the then general macroeconomic situation. As shown above, the Average Discounts ranged from approximately 27.83% to approximately 58.58%, with an average of approximately 50.76%.

The discounts represented by the Offer Price of approximately 41.5% to the audited NAV per Share as at 31 December 2022, approximately 42.9% to the unaudited NAV per Share as at 30 June 2023 and approximately 46.5% to the Adjusted NAV per Share, are all within the range of the Average Discounts and are lower than the average of the Average Discounts of around 50.76% as shown above.

7. Privatisation precedents

As discussed under the section “1.1. Background information of the Group” above, the Group is engaged in three continuing business segments, namely the processing segment which mainly consists of provision of services for dyeing and processing of differentiated polyester filament fabric contributing over 84% of the total revenue of the Group in FY2022, the environmental water project operation segment and the properties investment segment. The provision of dyeing and processing is quite a unique industry among Hong Kong listed companies. As stated in the section above, we have conducted an exercise to identify entities whose shares are listed on the Main Board of the Stock Exchange which are primarily engaged in the provision of services for dyeing and processing of fabrics with no less than 50% of its total revenue generated from the service fees charged in its latest financial year, however, based on the said criteria, we are not able to identify any Hong Kong listed companies for comparison purpose.

In this regard and for assessing the terms of the Share Offer, we have compared the Share Offer to privatisation proposals, by way of general offer or scheme of arrangement, of other companies listed on the Main Board of the Stock Exchange announced since 1 January 2021, over twenty-four months before the date of the Announcement, and up to the Latest Practicable Date, excluding privatisation proposals which were not/yet to be approved (the “**Privatisation Precedents**”) or with combined consideration of cash and shares, which represents an exhaustive list of 36 Privatization proposals we were able to identify from the Stock Exchange’s website satisfying the above selection criteria.

Analysis of privatization precedents is widely used in assessing the pricing of privatization proposals in Hong Kong. Although the financial performance and position, the business nature and scale of the companies listed below may vary and some aspects of pricing may be industry- or company-specific, we regard the comparison of the Share Offer with the Privatisation Precedents having general reference value for assessing the Offer Price.

The table below Illustrates the premiums represented by the offer/cancellation price over the respective last trading day/last full trading day/unaffected price day and respective 5 days, 10 days, 30 days and 60 days average share prices as well as the respective NAV per share and adjusted NAV per share, in respect of such privatisation proposals:

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Date of the announcement	Company and stock code	Premium/(discount) of the cancellation/offer price over/(to) the (average) closing share price up to and including the					Premium/(discount) of the cancellation/offer price over/(to) the	
		Last trading day/last full trading day/ unaffected price (%)	Last 5 trading days (%)	Last 10 trading days (%)	Last 30 trading days (%)	Last 60 trading days (%)	Latest NAV per share attributable to shareholders (%)	Adjusted NAV per share attributable to shareholders (%)
13 Jan 2021	China Machinery Engineering Corporation (1829)	45.1	73.7	93.7	118.9	127.0	(29.4)	N/A
17 Jan 2021	HKC (Holdings) Limited (190)	120.4	122.2	123.0	119.8	109.4	(70.2)	(68.3)
20 Jan 2021	Zhejiang New Century Hotel Management Co., Ltd (1158)	24.7	23.9	22.3	20.8	19.7	174.8	N/A
21 Jan 2021	Polytec Asset Holdings Limited (208)	61.3	58.6	63.2	72.6	94.2	(53.0)	(54.6)
22 Jan 2021	Zhuhai Holdings Investment Group Limited (908)	37.8	36.7	37.5	52.4	56.1	76.4	(21.5)
27 Jan 2021	New Century Real Estate Investment Trust (1275)	14.3	22.7	23.5	34.0	52.6	2.5	0.4
5 Feb 2021	Zhejiang Cangnan Instrument Group Company Limited (1743)	15.2	13.6	13.1	18.0	25.2	20.2	N/A
25 Feb 2021	Sichuan Languang Justbon Services Group Co., Ltd. (2606)	39.4	45.4	46.6	46.8	59.6	201.6	N/A
28 Feb 2021	Xiezhong International Holdings Limited (3663) (“Xiezhong International”)	17.6	17.6	21.2	25.0	37.9	116.2	400.0
20 Apr 2021	Inner Mongolia Energy Engineering Co. Limited (1649)	51.3	55.2	55.2	40.6	30.4	55.2	N/A
18 May 2021	Chong Hing Bank Limited (1111)	97.0	101.2	102.5	107.4	109.9	(10.1)	N/A
25 Jun 2021	Bestway Global Holding Inc. (3358)	27.0	29.5	32.7	47.0	62.8	10.9	0.0
9 Jul 2021	Beijing Capital Land Limited (2868)	62.8	61.9	77.2	127.6	150.0	(37.7)	(49.0)
27 Jul 2021	Nature Home Holding Company Limited (2083)	39.3	38.2	38.2	31.8	30.8	(19.0)	(23.1)
12 Aug 2021	Good Friend International Holdings Inc. (2398)	50.0	73.6	73.8	61.6	49.0	31.6	(18.9)
25 Aug 2021	Suchuang Gas Corporation Limited (1430)	2.9	19.4	23.2	25.6	26.3	96.9	N/A
6 Sep 2021	Hop Hing Group Holdings Limited (47)	73.9	74.7	76.2	70.9	62.9	57.8	N/A
30 Sep 2021	C.P. Pokhand Co. Limited (43)	19.8	22.3	17.4	27.8	33.7	7.5	N/A
8 Oct 2021	Dragon Crown Group Holdings Limited (935)	8.5	7.7	7.5	9.4	20.8	34.7	N/A
15 Oct 2021	Yorkey Optical International (Cayman) Limited (2788)	75.3	95.9	101.0	102.6	101.0	24.3	6.3
24 Nov 2021	Shanghai Jin Jiang Capital Company Limited (2006)	56.6	63.2	67.6	77.1	85.6	8.8	N/A
1 Dec 2021	Razer Inc. (1337)	55.8	58.4	61.4	67.9	59.3	487.5	N/A

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Date of the announcement	Company and stock code	Premium/(discount) of the cancellation/offer price over/(to) the (average) closing share price up to and including the					Premium/(discount) of the cancellation/offer price over/(to) the	
		Last trading day/last full trading day/ unaffected price date (%)	Last 5 trading days (%)	Last 10 trading days (%)	Last 30 trading days (%)	Last 60 trading days (%)	Latest NAV per share attributable to shareholders (%)	Adjusted NAV per share attributable to shareholders (%)
17 Dec 2021	Lanzhou Zhuangyuan Pasture Co., Limited (1533)	25.2	43.1	47.4	43.5	54.3	26.5	12.5
14 Jan 2022	AKM Industrial Company Limited (1639)	14.5	24.5	31.4	25.8	29.0	70.9	N/A
24 Jan 2022	Guodian Technology & Environmental Group Corporation Limited (1296)	48.0	89.5	103.8	93.1	107.7	(6.9)	N/A
6 May 2022	Yashili International Holdings Ltd (1230)	160.9	153.2	150.5	138.5	134.2	(6.3)	(2.9)
2 Jun 2022	Xiamen International Port Co., Limited (3378)	55.2	84.4	100.9	134.2	150.0	(14.8)	N/A
9 Jun 2022	China VAST Industrial Urban Development Company Limited (6166)	30.4	29.2	28.8	31.4	36.9	(41.2)	(41.9)
7 Aug 2022	Lifestyle International Holdings Limited (1212)	62.3	75.9	81.9	70.1	58.7	287.5	(52.8)
8 Aug 2022	EVOC Intelligent Technology Company Limited (2308)	15.1	42.3	44.6	44.6	50.9	(38.4)	(55.4)
24 Oct 2022	Kingston Financial Group Limited (1031)	47.8	48.4	47.6	39.4	33.3	(80.2)	(57.8)
21 Feb 2023	Jiangnan Group Limited (1366)	12.7	72.3	89.9	101.4	99.6	(63.8)	N/A
17 Feb 2023	AAG Energy Holdings Limited (2686)	10.1	10.1	9.3	10.8	24.2	(27.5)	N/A
29 Mar 2023	Inner Mongolia Yitai Coal Co., Ltd.* (3948)	54.9	58.7	63.7	67.3	64.2	(6.0)	N/A
8 May 2023	Hailan Holdings Limited (2278)	5.0	5.0	5.0	5.0	8.4	(3.2)	(60.2)
27 Jun 2023	Dali Foods Group Company Limited (3799)	37.9	36.4	39.4	30.2	21.8	151.7	N/A
	Maximum	160.9	153.2	150.5	138.5	150.0	487.5	400.0
	Minimum	2.9	5.0	5.0	5.0	8.4	(80.2)	(68.3)
	Average	43.8	52.5	56.2	59.5	63.3	39.9	(5.1)
	Median	39.4	46.9	47.5	46.9	55.2	8.2	(23.1)
							Excluding outlier:	
							Maximum	12.5
							Minimum	(68.3)
							Average	(30.5)
							Median	(32.5)
25 June 2023	The Company (based on the Offer Price)	58.7	55.8	61.0	52.9	38.5	(42.9)	(46.5)

* For identification purposes only

Source: Bloomberg and the website of the Hong Kong Stock Exchange

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Note 1: Premiums/discounts shown above for certain trading periods were independently calculated as they were not published in the respective composite/offer documents. The premiums/discounts (subject to rounding) were derived by comparing the average closing share price (subject to rounding) and the respective cancellation/offer price.

Based on the table above, the average premiums of the Privatisation Precedents over the last trading day/last full trading day/unaffected price day share price, 5 days, 10 days, 30 days and 60 days share price averages were approximately 43.8%, 52.5%, 56.2%, 59.5% and 63.3% respectively. We note that the premium represented by the Offer Price over the average closing prices of the Shares on each of the Last Trading Day, the 5 days and 10 days were higher than those of the Privatisation Precedents, and premium represented by the Offer Price over the average closing prices of the Shares for the 30 days and 60 days were lower than that of the corresponding average premiums of the Privatisation Precedents but being within the corresponding range and much higher than the corresponding minimum premium of the Privatisation Precedents.

As shown in the table above, the discounts to the NAV per Share as at 30 June 2023 and to the Adjusted NAV per Share represented by the Offer Price are within the respective range of discount/premium, but lower than the respective average premium/discount, represented by the offer/cancellation price over the latest NAV per share and the adjusted NAV per share of the Privatisation Precedents respectively. However, among the 17 Privatisation Precedents with adjusted NAV per share available, we note that Xiezhong International had an exceptionally high premium to adjusted NAV of 400% which is, in our view, an outlier. In this regard and if such outlier is excluded, the remaining 16 Privatisation Precedents would have a range between a premium of around 12.5% to a discount of around 68.3% represented by the offer/cancellation price over/to the adjusted NAV attributable to shareholders per share, with an average discount to adjusted NAV of around 30.5% and a median discount to adjusted NAV of around 32.5%. The discount to the Adjusted NAV per Share represented by the Offer Price is noted to be closer to the aforesaid mean and median of such 16 Privatisation Precedents.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Although the discounts to the latest NAV per Share and the Adjusted NAV per Share represented by the Offer Price, as discussed above, are within the respective ranges of premium/discount over/to latest NAV per share and adjusted NAV per share of the Privatisation Precedents, Shareholders should note that the financial performance and position, the business nature and scale of the companies involved in the Privatisation Precedents varies and some aspects of pricing and net assets value may be industry- or company-specific and as such, the comparison between the discounts to latest NAV per Share and to Adjusted NAV per Share with those under the Privatisation Precedents are therefore for general reference. Nevertheless, we consider such discounts to the latest NAV per Share and the Adjusted NAV per Share represented by the Offer Price, in totality, acceptable having considered the reasons that, (i) both the discounts to the latest NAV per Share and the Adjusted NAV per Share represented by the Offer Price are lower than the average of the Average Discounts by comparing the historical Share price against the respective NAV per Share for the respective period in the past two years; (ii) the Offer Price represents significant premiums over the prevailing market prices of the Shares as discussed above; and (iii) the historical thin trading volume of the Shares and the uncertainties associated with whether the Independent Shareholders are able to dispose their shareholdings on market at the same price as the Offer Price.

8. Option Offer

As at the Latest Practicable Date, there are 13,938,200 outstanding Share Options of which 5,139,400 have an exercise price of HK\$1.095 and 8,798,800 have an exercise price of HK\$1.195. Given that the exercise prices of the Share Options exceeded the Offer Price and taking into account the “see-through” principle usually adopted in Hong Kong for privatisation proposals of a similar nature, we consider the Option Offer at a nominal amount of HK\$0.0001 in cash for each outstanding Share Option to be fair and reasonable so far as the Optionholders are concerned.

DISCUSSION OF PRINCIPAL REASONS AND FACTORS

We consider that the terms of the Offers, including the Offer Price and the cancellation price per Share Option, to be fair and reasonable as the Independent Shareholders and Optionholders respectively are concerned after taking into account all of the above principal factors and reasons in totality, including:

- (1) as discussed in detail in the sections headed “1.2 Financial information of the Group” and “3. Prospects of the Group” above, despite the Company’s profitability reported for 1H2023 and in light of, among others, the recent slowdown in GDP growth of China, shrinking in profits from textile industry and investments and weakened sales in properties investments sector and that future economic growth in China is inevitably subject to uncertainties casted by multiple macroeconomic factors including geopolitical tensions, high inflation and tightened financial conditions, the business performance and prospects of the Company is still subject to challenges and uncertainties given majority of the Group’s revenue was generated in the PRC including but not limited to the domestic sales and rental income;

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (2) the Offer Price represents a premium of approximately 58.7% over the closing price of HK\$0.630 per Shares as quoted on the Stock Exchange on the Last Trading Day and also represents significant premiums over the prevailing market prices of the Shares as discussed in detail in the section headed “5.1 Historical price performance of the Shares” above;
- (3) given the generally thin trading volume of the Shares as discussed in the section headed “5.2 Trading liquidity of the Shares” above, it is uncertain as to whether there would be sufficient liquidity in the Shares for the Shareholders to dispose of a significant number of Shares in the open market without causing an adverse impact on the market price of the Shares and accordingly, the market trading price of the Shares may not necessarily reflect the proceeds that the Shareholders can receive by the disposal of their Shares in the open market. The Offer, therefore, represent an opportunity and a viable alternative exist for the Shareholders, particularly, for those who held a large quantity of Shares, to dispose of their entire holdings at a price that represents a significant premium over the prevailing market prices of the Shares, if they so wish; and
- (4) as illustrated in the “6. Historical discount of market price of the Shares to the NAV per Share” above, although the Offer Price represent discounts to the NAV per Share and the Adjusted NAV per Share, however, such discounts are lower than the average of the Average Discounts by comparing the historical Share price against the respective NAV per Share for the respective periods in the past two years.

OPINION AND RECOMMENDATIONS

Based on the above principal factors and reasons, we consider the terms of the Share Offer, including the Offer Price, are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to accept the Share Offer. Independent Shareholders who wish to accept the Share Offer are recommended to read carefully the procedures for accepting the Share Offer as detailed in Appendix I to the Composite Document and also the accompanying White Form(s) of Acceptance.

However, in view of the recent upsurge of both the trading price and volume of the Shares, in particular the period after the publication of the Announcement, the Independent Shareholders who would like to realise part or all of their investments in the Company may closely monitor the market price of the Shares during the Offer Period and, instead of accepting the Share Offer, consider selling their Shares in the open market should the sale proceeds, net of all transaction costs, exceed the net amount receivable under the Share Offer. However, Independent Shareholders should also consider and monitor the overall trading volume of the Shares as they may or may not be able to dispose of their Shares (or conversion Shares, as the case may be) in the market without exerting downward pressure on the price of the Shares.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We also consider that the terms of the Option Offer are fair and reasonable so far as the Optionholders are concerned. Accordingly, we recommend the Independent Board Committee to advise the Optionholders to accept the Option Offer. Optionholders who wish to accept the Option Offer are recommended to read carefully the procedures for accepting the Option Offer as detailed in Appendix I to the Composite Document and also the accompanying Pink Form(s) of Acceptance.

Optionholders should also closely monitor the market price of the Shares during the Offer Period, and are advised to exercise the Share Options and dispose of the Shares so converted in the open market if the market price per Share exceeds their respective exercise price (and hence becoming in-the-money) during the Offer Period and if the net proceeds from such actions (after deducting all transaction costs) would exceed the net amount receivable under the Option Offer. The Optionholders should exercise caution in doing so and closely monitor the stock market and trading price and liquidity of the Shares.

Yours faithfully,
for and on behalf of
SOMERLEY CAPITAL LIMITED
Lyan Tam
Director

Ms. Lyan Tam is a licensed person registered with the Securities and Futures Commission and as a responsible officer of Somerley to carry out Type 6 (advising on corporate finance) regulated activities under the SFO and has over 20 years of experience in corporate finance industry.

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

1. PROCEDURES FOR ACCEPTANCE

1.1 The Share Offer

To accept the Share Offer, you should complete and sign the **WHITE** Form(s) of Acceptance in accordance with the instructions printed thereon, which instructions form part of the terms of the Share 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 Share(s) is/are in your name, and you wish to accept the Share Offer, you must send the duly completed **WHITE** Form(s) of Acceptance together with 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) for not less than the number of Shares in respect of which you intend to accept the Share Offer by post or by hand to the Registrar marked “Yongsheng Advanced Materials Company Limited – Share Offer” on the envelope 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 announce, with the consent of the Executive in accordance with the Takeovers Code.
- (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 Share Offer 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 Share Offer on your behalf and requesting it to deliver the duly completed and signed **WHITE** Form(s) 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) for the number of Shares in respect of which you intend to accept the Share Offer to the Registrar; or

- (ii) arrange for the Shares to be registered in your name by the Company through the Registrar, and deliver the duly completed **WHITE** Form(s) 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 at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, by no later than 4:00 p.m. on the Closing Date; or
 - (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 Share 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 receipt(s) 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 and you wish to accept the Share Offer, you should nevertheless complete and sign the **WHITE** Form(s) of Acceptance and deliver it 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 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 other document(s) of title, you should also write to the Registrar requesting a letter of indemnity which, when completed in accordance with the instructions given, should be returned to the Registrar. The Offeror shall have 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 Share Offer in respect of your Shares, you should nevertheless complete the **WHITE** Form(s) of Acceptance and deliver it to the Registrar together with the transfer receipt(s) duly signed by yourself by not later than 4:00 p.m. on the Closing Date. Such action will be deemed to be an irrevocable authority to Halcyon Securities and/or the Offeror 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 certificate(s) to the Registrar as if it was/they were delivered to the Registrar with the **WHITE** Form(s) of Acceptance.
- (e) Acceptance of the Share Offer will be treated as valid only if the duly completed and signed **WHITE** Form(s) of Acceptance is received by the Registrar by not later than 4:00 p.m. on the Closing Date (or such later time and/or date as the Offeror may determine and announce, with the consent of the Executive, in accordance with the Takeovers Code), and the Registrar has recorded that the **WHITE** Form(s) of Acceptance and any relevant documents as required under this paragraph 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 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) is/are not in your name, such other documents (e.g. a duly stamped transfer of the relevant Shares(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 Offer Shares; or
 - (ii) from a registered 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 Offer Shares which are not taken into account under another sub-paragraph of this paragraph (e)); or
 - (iii) certified by the Registrar or the Stock Exchange.

If the **WHITE** Form(s) of Acceptance is executed by a person other than the registered Shareholders, appropriate documentary evidence of authority to the satisfaction of the Registrar must be produced (for example, a copy of the grant of probate or certified copy of a power of attorney).

- (f) No acknowledgement of receipt of any **WHITE** Form(s) 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.
- (g) In Hong Kong, seller's ad valorem stamp duty arising in connection with acceptances of the Share Offer will be payable by relevant holders of Offer Shares accepting the Share Offer, at a rate of 0.13% of the market value of the Offer Shares or consideration payable by the Offeror in respect of the relevant acceptances of the Share Offer, whichever is higher, and will be deducted from the cash amount payable by the Offeror to the relevant holders of Offer Shares accepting the Share Offer (where the amount of stamp duty is a fraction of a Hong Kong dollar, the stamp duty will be rounded up to the nearest Hong Kong dollar). The Offeror will arrange for payment of the seller's ad valorem stamp duty on behalf of the relevant holders of Offer Shares accepting the Share Offer and will pay the buyer's ad valorem stamp duty in connection with the acceptance of the Share Offer and the transfer of the Shares in accordance with the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong).
- (h) The address of the Registrar, Tricor Investor Services Limited, is at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong.

1.2 The Option Offer

- (a) If you accept the Option Offer, you should complete the **PINK** Form(s) of Acceptance in accordance with the instructions printed thereon in respect of the number of outstanding Share Options held by you that you wish to tender for acceptance pursuant to the Option Offer, which instructions form part of the terms and conditions of the Option Offer.
- (b) The completed **PINK** Form(s) of Acceptance should be forwarded, together with the relevant certificate(s) and/or letter(s) of grant (as the case may be) of the Share Options for not less than the number of Share Options in respect of which you intend to accept the Option Offer, by post or by hand to the Company Secretary marked "Yongsheng Advanced Materials Company Limited – Option Offer" on the envelope as soon as possible but in any event no later than 4:00 p.m. on the Closing Date or such later time and/or date as the Offeror may determine and announce, with the consent of the Executive, in accordance with the Takeovers Code.
- (c) No stamp duty is payable in connection with the acceptances of the Option Offer.

- (d) No acknowledgement of receipt of any **PINK** Form(s) of Acceptance and/or certificate(s) and/or letter(s) of grant (as the case may be) of the Share Options will be given.

1.3 Return of documents

If the Offers do not become, or are not declared, unconditional in all respects within the time permitted by the Takeovers Code, the share certificate(s) and/or transfer receipt(s) (where applicable) and other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) (in the case of the Share Offer) and/or certificate(s) and/or the letter(s) of grant of the Share Options (in the case of the Option Offer) received by the Registrar (in the case of the Share Offer) and the Company Secretary (in the case of the Option Offer) will be returned to the holders of Offer Shares and Optionholders (as the case may be) who have accepted the Share Offer or the Option Offer (as the case may be) by ordinary post at such holders' and Optionholders' own risk as soon as possible but in any event within ten (10) days after the Offers have lapsed.

2. ACCEPTANCE PERIOD AND REVISIONS

Unless the Offers have been revised or extended with the consent of the Executive in accordance with the Takeovers Code, to be valid, all Form(s) of Acceptance must be received by the Registrar or the Company Secretary (where applicable) by 4:00 p.m. on the Closing Date in accordance with the instructions printed thereon.

The Offeror and the Company will jointly issue an announcement through the website of the Stock Exchange no later than 7:00 p.m. on the Closing Date stating the results of the Offers and whether the Offers have been extended, revised or have expired.

If the Offers are extended or revised, announcement of such extension or revision will state the next closing date or, if the Offers have become unconditional, the announcement may contain a statement that the Offers will remain open until further notice. In the latter case, at least 14 days' notice in writing will be given before the Offers are closed to the holders of Offer Shares and the Optionholders who have not accepted the Offers, and an announcement will be released. The revised Offers will be kept open for at least 14 days thereafter.

If the Closing Date is extended, any reference in this Composite Document and in the Form(s) of Acceptance to the Closing Date shall, except where the context otherwise requires, be deemed to refer to the subsequent Closing Date of the Offers as so extended.

Any acceptance of the relevant revised Offers shall be irrevocable unless and until the holders of Offer Shares and the Optionholders who accept the Share Offer or the Option Offer (as the case may be) become entitled to withdraw their acceptance under the paragraph headed “6. Right of withdrawal” of this Appendix below and duly do so.

3. EXERCISE OF SHARE OPTIONS

Optionholders who wish to accept the Option Offer may (i) exercise his/her/its Share Options (to the extent exercisable) by completing, signing and delivering a notice for exercise the Share Options together with a cheque for payment of the subscription monies and the related certificates (if applicable) for the Share Options to the Company Secretary before Share Offer closes; and (ii) at the same time, or in any event no later than 4:00 p.m. on the Closing Date, complete and sign the **WHITE** Form of Acceptance and deliver it to the Company Secretary for exercising the Share Options. Exercise of the Share Options is subject to the respective terms and conditions of the Share Option Scheme and terms attaching to the grant of the relevant Share Options. Delivery of the completed and signed **WHITE** Form of Acceptance to the Company will not serve to complete the exercise of the Share Options but will only be deemed to be an irrevocable authority to the Offeror and/or Halcyon Securities and/or any of their respective agent(s) or such person(s) as they may direct to collect from the Company on his/her/its behalf the relevant share certificate(s) when issued on exercise of the Share Options as if it/they were delivered to the Register with **WHITE** Form of Acceptance. If the Optionholder fails to exercise his/her/its Share Options as aforesaid and in accordance with the respective terms and conditions of the Share Option Scheme, there is no guarantee that the Company may issue the relevant share certificate in respect of the Shares allotted pursuant to his/her/its exercise of Share Options to such Optionholder in time for it to accept the Share Offer as a Shareholder of such Shares under the terms of the Share Offer.

Pursuant to the Share Option Scheme, if a general offer by way of takeover is made to all the Shareholders and such offer becomes or is declared unconditional prior to the expiry of the Share Options, the Optionholders shall be entitled to exercise the Share Options in full (to the extent not already lapsed or exercised) at any time within one month after the date on which the Share Offer becomes or is declared unconditional. In the event that Optionholder exercises any outstanding Share Options within one month after the date on which the Share Offer becomes or is declared unconditional, such Shares shall be considered as Offer Shares and may be compulsorily acquired by the Offeror in the event the Offeror exercises its right to compulsorily acquire those Offer Shares not already owned and/or agreed to be acquired by it and/or the BVI PAC under the Share Offer pursuant to Section 88 of the Cayman Islands Companies Act and Rule 2.11 of the Takeovers Code. Any Share Options that remained outstanding and not exercised will lapse at the end of one month after the date on which the Share Offer becomes or is declared unconditional, regardless of whether the Company will remain listed or not after the Share Offer.

4. NOMINEE REGISTRATION

To ensure equality of treatment of all holders of Offer Shares, those holders of Offer Shares who hold Offer Share(s) 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 Share(s) whose investments are registered in the names of nominees (including those whose interests in Shares are held through CCASS) to accept the Share Offer, it is essential that they provide instructions of their intentions with regard to the Share Offer to their respective nominees.

5. ANNOUNCEMENTS

- (a) By 6:00 p.m. (or such later time and/or date as the Executive agrees) on the Closing Date, the Offeror must inform the Executive and the Stock Exchange of its intention in relation to the revision, extension or expiry of the Offers. The Offeror must publish an announcement on the Stock Exchange's website no later than 7:00 p.m. (Hong Kong time) on the Closing Date stating the results of the Offers and whether, amongst other information required under Rule 19.1 of the Takeovers Code, the Offers have been revised, extended or has expired or has become or been declared unconditional.

The announcement must state the following:

- (1) the total number of Offer Shares for which acceptances for the Share Offer have been received;
- (2) the total number of Offer Options for which acceptances for the Option Offer have been received;
- (3) the number of Shares and rights over Shares held, controlled or directed by the Offeror or the Offeror Concert Parties before the Offer Period; and
- (4) the total number of Shares and rights over Shares acquired or agreed to be acquired during the Offer Period by the Offeror or the Offeror Concert Parties.

The announcement must also (i) specify the percentages of the issued share capital of the Company and the percentages of voting rights of the Company represented by these number of Shares; and (ii) include details of any relevant securities (as defined under Note 4 to Rule 22 of the Takeovers Code) in the Company which the Offeror or any person acting in concert with it has borrowed or lent, save for any borrowed Shares which have been either on-lent or sold.

- (b) In computing the total number or principal amount, as the case may be, of Offer Shares and Offer Options represented by acceptances, only valid acceptances that are complete, in good order and fulfill the acceptance conditions set out in paragraphs 1.1 and 1.2 of this Appendix, and which have been received by the Registrar or Company Secretary no later than 4:00 p.m. on the Closing Date, or are extended or revised, with the consent of the Executive, in accordance with the Takeovers Code, shall be included.
- (c) If the Offeror, the Offeror Concert Parties or the Offeror's advisers make any statement about the level of acceptances or the number of percentage of accepting Independent Shareholders and Optionholders during the Offer Period, then the Offeror must make an announcement in compliance with Note 2 to Rule 19 of the Takeovers Code.
- (d) As required under the Takeovers Code, all announcements in relation to the Offers which the Executive and the Stock Exchange have confirmed that they have no further comments thereon must be made in accordance with the requirements of the Takeovers Code and the Listing Rules.

6. RIGHT OF WITHDRAWAL

- (a) The Offers are conditional upon fulfillment of the Conditions as set out in the letter from Halcyon Securities. Acceptance of the Offers tendered by the holders of the Offer Shares and the Optionholders (as the case may be) or by their agent(s) on their behalves, shall be irrevocable and cannot be withdrawn, except in the circumstances set out in sub-paragraph (b) below or in compliance with Rule 17 of the Takeovers Code which provides that an acceptor of the Offers shall be entitled to withdraw his/her/its acceptance after 21 days from the First Closing Date if the Share Offer has not by then become unconditional as to acceptances.
- (b) If the Offeror is unable to comply with the requirements set out in the paragraph headed "5. Announcements" above, under Rule 19.2 of the Takeovers Code, the Executive may require the holders of the Offer Shares and the Optionholders who have tendered acceptances to the Offers be granted a right of the withdrawal on terms that are acceptable to the Executive until the requirements set out in that paragraph are met.

In such case, when the holders of the Offer Shares and/or Optionholders withdraw their respective acceptance(s), the Offeror shall, as soon as possible but in any event within ten (10) days thereof, return by ordinary post the share certificate(s) and/or transfer receipt(s) (where applicable) and other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) (in the case of the Share Offer) and/or certificate(s) and/or the letter(s) of grant of the Share Options (in the case of the Option Offer) lodged with the Form(s) of Acceptance to the relevant holder(s) of Offer Shares and/or Optionholder(s).

Save as aforesaid, acceptances of the Offers shall be irrevocable and not capable of being withdrawn.

7. SETTLEMENT

(a) The Share Offer

Provided that a valid **WHITE** Form(s) of Acceptance and 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) are complete and in good order in all respects and have been received by the Registrar before 4:00 p.m. on the Closing Date, a cheque in the amount due to such holders of Offer Shares who accept the Share Offer (less seller's ad valorem stamp duty) in respect of the Offer Shares tendered by him/her/it under the Share Offer will be despatched to such holders of Offer Shares by ordinary post at his/her/its own risk as soon as possible but in any event within seven (7) Business Days following the later of the date on which the the Share Offer becomes, or is declared, unconditional and the date of receipt of a duly completed acceptance.

No fractions of a cent will be payable and the amount of the consideration payable to a holder of Offer Shares who validly accepts the Share Offer will be rounded up to the nearest cent.

Cheque(s) not presented for payment within six months from the date of issue of the relevant cheque(s) will not be honoured and be of no further effect, and in such circumstances cheque holders should contact the Offeror for payment.

Settlement of the consideration to which any holder of Offer Shares is entitled under the Share Offer will be implemented in full in accordance with the terms of the Share Offer (save with respect of 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 holder of Offer Shares.

(b) The Option Offer

Provided that a valid **PINK** Form of Acceptance and the relevant certificate(s) and/or letter(s) of grant (as the case may be) of the Share Options are complete and in good order in all respects and have been received by the Company Secretary before 4:00 p.m. on the Closing Date, a cheque in the amount due to the Optionholders in respect of the Share Options tendered by him/her under the Option Offer will be despatched to such Optionholder by ordinary post at his/her own risk as soon as possible but in any event within seven (7) Business Days following the later of the date on which the the Option Offer become, or is declared, unconditional and the date of receipt of a duly completed acceptance.

No fractions of a cent will be payable and the amount of the consideration payable to a Optionholder who validly accepts the Option Offer will be rounded up to the nearest cent.

Cheque(s) not presented for payment within six months from the date of issue of the relevant cheque(s) will not be honoured and be of no further effect, and in such circumstances cheque holders should contact the Offeror for payment.

Settlement of the consideration to which any Optionholder is entitled under the Option Offer will be implemented in full in accordance with the terms of the Option Offer, 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 Optionholder.

8. POSTING

All documents and remittances to be sent to holders of Offer Shares will be sent to them by ordinary post at their own risk. Such documents and remittances will be sent to the relevant holders of Offer Shares' address as they appear in the register of members of the Company or, in the case of joint Shareholders, to the Shareholder whose name appears first in the register of members of the Company. All documents and remittances to be sent to Optionholders will be sent to them by ordinary post at their own risk. Such documents and remittances will be sent to the relevant Optionholders' address as they appear in the records of the Company. None of the Company, the Offeror, Halcyon, the Independent Financial Adviser and the Registrar or any of their respective directors or agents or any other person involved in the Offers will be responsible for any loss or delay in the transmission or any other liability that may arise as a result thereof.

9. OVERSEAS SHAREHOLDERS AND OPTIONHOLDERS

The making of the Offers to certain Shareholders and Optionholders who are citizens, residents or nationals of jurisdictions outside Hong Kong may be subject to the laws of the relevant jurisdictions. Such overseas Shareholders and Optionholders should inform themselves about and observe any applicable legal, tax or regulatory requirements. It is the responsibility of each such Shareholder and/or Optionholder who wishes to accept or take any other action in relation to the Share Offer and/or Option Offer (where applicable) 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, which may be required and the compliance with other necessary formalities or legal or regulatory requirements and the payment of any transfer or cancellation or other taxes and duties payable by such Shareholder and/or Optionholder (where applicable) in such relevant jurisdictions.

The Offeror, Halcyon and any of their respective directors and any other persons involved in the Offers shall be entitled to be fully indemnified and held harmless by such person for any taxes as such person may be required to pay. Acceptances of the Offers by any such person will be deemed to constitute a warranty by such person to the Offeror that such person is permitted under all applicable laws to accept the Offers and any revision thereof, and such acceptance shall be valid and binding in accordance with all applicable laws.

10. STAMP DUTY

Seller's ad valorem stamp duty at the rate of 0.13% of (i) the value of the consideration arising on acceptance of the Share Offer payable by the Offeror; or (ii) if higher, the market value of the Offer Shares will be payable by the holders of Offer Shares who accept the Share Offer. The relevant amount of stamp duty payable by the holders of Offer Shares who accept the Share Offer will be deducted from the consideration payable to them under the Share Offer.

The Offeror will bear buyer's ad valorem stamp duty in respect of acceptances of the Share Offer and will be responsible to arrange for payment of the seller's ad valorem stamp duty in respect of the Share Offer to the Stamp Office of Hong Kong for all the stamp duty payable for the sale and purchase of Shares in respect of which the Share Offer is accepted.

No stamp duty is payable in connection with the acceptance of the Option Offer.

11. TAX IMPLICATIONS

Holders of Offer Shares and Optionholders are recommended to consult their own professional advisers if they are in any doubt as to the taxation implications of accepting or rejecting the Offers. It is emphasised that none of the Offeror, the Company, Halcyon, the Independent Financial Adviser and the Registrar and their respective directors, officers or associates or any other person involved in the Offers accepts responsibility for any taxation effects on, or liabilities of, any persons as a result of their acceptance or rejection of the Offers.

12. GENERAL

- (a) All communications, notices, Form(s) of Acceptance, share certificate(s), certificate(s) and/or letter(s) of grant (as the case may be) of the Share Options, 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 Offers to be delivered by or sent to or from the holders of Offer Shares and the Optionholders will be delivered by or sent to or from them, or their designated agents through post at their own risk, and none of the Company, the Offeror, Halcyon, the Independent Financial Adviser, the Registrar, any other parties involved in the Offers nor any of their respective directors or agents accepts any liability for any loss in postage or any other liabilities that may arise as a result thereof.
- (b) The provisions set out in the Form(s) of Acceptance form part of the terms and conditions of the Offers.
- (c) The accidental omission to despatch this Composite Document and/or the Form(s) of Acceptance or any of them to any person to whom the Offers is made will not invalidate the Offers in any way.
- (d) The Offers and all acceptances will be governed by and construed in accordance with the laws of Hong Kong.
- (e) Execution of a Form of Acceptance by or on behalf of a holder of Offer Shares or Optionholder (where applicable) will constitute such person's agreement that the courts of Hong Kong shall be exclusive jurisdiction to settle any dispute which may arise in connection with the Offers.
- (f) Due execution of the Form(s) of Acceptance will constitute an authority to the Offeror, Halcyon 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 Offers 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 it may direct the Offer Shares and/or the Offer Option(s), in respect of which such person or persons has/have accepted the Offers.

- (g) Acceptance of the Offers by any person will be deemed to constitute a warranty by such person to the Offeror and the Company:
- (1) (in case of the Share Offer) that the Offer Shares to be acquired under the Share Offer are fully paid-up and are acquired by the Offeror or its nominee(s) free from all third party rights, liens, mortgages, charges, equities, options, claims, adverse interests and encumbrances whatsoever and together with all rights, benefits and entitlements attaching or accruing thereto, including without limitation the right to receive all dividends and distributions declared, made or paid, if any, on or after the date of this Composite Document; and
 - (2) (in the case of the Option Offer) that the Offer Options which are to be cancelled under the Option Offer shall be cancelled and renounced on the basis that such Offer Options are free from all third party rights, liens, claims, charges, equities and encumbrances whatsoever and renounce together with all rights attaching thereto as at the date of this Composite Document or subsequently becoming attached to them.
- (h) Acceptance of the Offers by any person will be deemed to constitute a warranty by such person to the Offeror and the Company that if such person accepting the Offers is an overseas Shareholder and/or Optionholder, he/she/it has observed the laws of all relevant jurisdictions in connection therewith, including the obtaining of all requisite governmental, exchange control or other consents and compliance with all necessary formalities or legal or regulatory requirements and paid any transfer or cancellation or other taxes and duties payable in respect of such jurisdictions, and is permitted under all applicable laws to accept the Offers and any revision thereof, and that such acceptance is valid and binding in accordance with all applicable laws.
- (i) Acceptance of the Share Offer by any nominee will be deemed to constitute a warranty by such nominee to the Offeror that the number of Offer Shares in respect of which it is indicated in the **WHITE** Form(s) of Acceptance is the aggregate number of Offer Shares held by such nominee for such beneficial owner who is accepting the Share Offer.
- (j) All acceptances, instructions, authorities and undertakings given by the holders of Offer Shares in the **WHITE** Form(s) of Acceptance and by Optionholders in the **PINK** Form(s) of Acceptance shall be irrevocable except as permitted under the Takeovers Code.

- (k) In making their decisions, the holders of Offer Shares or Optionholders must rely on their own examination of the Offeror, the Group and the terms of the Offers, including the merits and risks involved. The contents of this Composite Document, including any advice or recommendation contained herein together with the Form(s) of Acceptance, shall not be construed as any legal or business advice on the part of the Offeror, the Company, Halcyon or their respective professional advisers. Holders of Offer Shares and Optionholders should consult their own professional advisers for professional advice.
- (l) This Composite Document and Form(s) of Acceptance have been prepared for the purposes of compliance with the legislative and regulatory requirements applicable in respect of the Offers in Hong Kong and the operating rules of the Stock Exchange.
- (m) Unless otherwise expressly stated in this Composite Document and/or Form(s) of Acceptance, none of the terms of the Offers or any terms contained in this Composite Document will be enforceable, under the Contracts (Rights of Third Parties) Ordinance (Chapter 623 of the Laws of Hong Kong), by any person other than the Offeror and the accepting holders of Offer Shares and/or Optionholders (where applicable).

13. INTERPRETATION

- (a) References to this Composite Document to a holders of Offer Shares includes a reference to a person(s) who, by reason of an acquisition or transfer of Offer Shares, is entitled to execute the accompanying **WHITE** Form(s) of Acceptance and in the event of more than one person executing a **WHITE** Form(s) of Acceptance, the provisions of this Composite Document apply to them jointly and severally.
- (b) A reference to this Composite Document and the Form(s) of Acceptance to the Offers shall include any extension and/or revision thereof.
- (c) A reference in this Composite Document and the Form(s) of Acceptance to the masculine gender includes the feminine and neuter genders, and a reference to the singular includes the plural, and vice versa.
- (d) The English text of this Composite Document and the Form(s) of Acceptance shall prevail over their respective Chinese texts for the purpose of interpretation.

1. FINANCIAL SUMMARY

The following is a summary of the (i) audited financial results of the Group for each of the three years ended 31 December 2022 as extracted from the annual reports for the three years ended 31 December 2020, 2021 and 2022; and (ii) unaudited consolidated financial information of the Group for the six months ended 30 June 2022 and 2023 as extracted from the interim results announcement of the Company dated 16 August 2023.

	For the six months ended		For the year ended 31 December		
	30 June		2022	2021	2020
	2023	2022	2022	2021	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited, re-presented)	(Audited)	(Audited, re-presented)	(Audited, adjusted)
CONTINUING OPERATIONS					
Revenue from continuing operations	119,807	105,188	216,014	206,182	361,936
Cost of sales	(75,998)	(70,868)	(147,603)	(132,936)	(249,563)
Gross profit	43,809	34,320	68,411	73,246	112,373
Other income and gains, net	6,267	9,813	18,250	1,557	24,919
Selling and distribution expenses	(1,112)	(644)	(1,415)	(2,493)	(1,428)
Administrative expenses	(20,997)	(19,964)	(39,784)	(39,827)	(35,508)
Remeasurement loss upon transfer of certain properties held for sale to investment properties	-	-	(70,359)	-	-
Fair value (loss)/gain on investment properties	-	-	(20,331)	(104,651)	369
Reversal of impairment/ (impairment losses) on financial and contract assets, net	1,024	(309)	(2,024)	(46)	(10,366)
Finance costs	(6,302)	(7,578)	(14,990)	(7,212)	(1,785)
PROFIT/(LOSS) BEFORE TAX FROM CONTINUING OPERATIONS					
	22,689	15,638	(62,242)	(79,426)	88,574
Income tax expense	(6,388)	(3,815)	(9,884)	(3,153)	(17,431)
PROFIT/(LOSS) FOR THE PERIOD/YEAR FROM CONTINUING OPERATIONS					
	<u>16,301</u>	<u>11,823</u>	<u>(72,126)</u>	<u>(82,579)</u>	<u>71,143</u>
DISCONTINUED OPERATION					
Profit/(loss) for the period/year from a discontinued operation	-	(1,429)	14,164	(163,744)	-
PROFIT/(LOSS) FOR THE PERIOD/YEAR					
	<u>16,301</u>	<u>10,394</u>	<u>(57,962)</u>	<u>(246,323)</u>	<u>71,143</u>

APPENDIX II
FINANCIAL INFORMATION OF THE GROUP

	For the six months ended		For the year ended 31 December		
	30 June		2022	2021	2020
	2023	2022	2022	2021	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited, re-presented)	(Audited)	(Audited, re-presented)	(Audited, adjusted)
Profit/(loss) attributable to:					
– Shareholders of the Company	18,449	11,222	(55,178)	(245,307)	72,685
– Non-controlling interests	(2,148)	(828)	(2,784)	(1,016)	(1,542)
	<u>16,301</u>	<u>10,394</u>	<u>(57,962)</u>	<u>(246,323)</u>	<u>71,143</u>
Total comprehensive (loss)/profit attributable to:					
– Shareholders of the Company	21,585	15,244	(45,832)	(250,724)	53,978
– Non-controlling interests	(1,890)	(485)	(2,117)	(1,276)	(2,566)
	<u>19,695</u>	<u>14,759</u>	<u>(47,949)</u>	<u>(252,000)</u>	<u>51,412</u>
Earnings/(loss) per share					
– Basic (RMB cents per Share)	2.6	1.5	(7.7)	(33.5)	9.9
– Diluted (RMB cents per Share)	2.6	1.5	(7.7)	(33.5)	9.8
Dividends					
Dividend per share (combined, expressed in RMB cents per Share)	–	–	–	1.0	3.5

Save as disclosed above, there were no (loss)/profit and total comprehensive (loss)/income attributable to controlling interests, or other items of any income or expense not disclosed in the summary of financial information shown above which are material in respect of the audited consolidated statement of comprehensive income of the Group for each of the three financial years ended 31 December 2020, 2021 and 2022 respectively, and the unaudited consolidated financial statements of the Group for the six months ended 30 June 2022 and 2023.

The consolidated financial statements of the Group for the three years ended 31 December 2022 were audited by Ernst & Young. There was no modified opinion, emphasis of matter, or material uncertainty related to going concern contained in the auditors' report of the Group issued by Ernst & Young for any of the three years ended 31 December 2022.

CONSOLIDATED FINANCIAL STATEMENTS

The Company is required to set out or refer to in this Composite Document the consolidated statement of financial position, the consolidated statement of cash flows, the consolidated statement of changes of equity and any other primary statement as shown in (i) the audited consolidated financial statements of the Group for the year ended 31 December 2020 (the “**2020 Financial Statements**”); (ii) the audited consolidated financial statements of the Group for the year ended 31 December 2021 (the “**2021 Financial Statements**”); (iii) the audited consolidated financial statements of the Group for the year ended 31 December 2022 (the “**2022 Financial Statements**”); and (iv) the unaudited consolidated financial statements of the Group for the six months ended 30 June 2023 (the “**2023 Interim Financial Statements**”), together with the notes to the relevant published accounts which are of major relevance to the appreciation of the above financial information.

The 2020 Financial Statements are set out from pages 94 to 250 in the annual report of the Company for the year ended 31 December 2020 (the “**2020 Annual Report**”) which was published on 26 April 2021 on the websites of the Company (<http://www.chinaysgroup.com>) and the Stock Exchange (<https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0426/2021042600676.pdf>).

The 2021 Financial Statements are set out from pages 108 to 262 in the annual report of the Company for the year ended 31 December 2021 (the “**2021 Annual Report**”) which was published on 27 April 2022 on the websites of the Company (<http://www.chinaysgroup.com>) and the Stock Exchange (<https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0427/2022042700778.pdf>).

The 2022 Financial Statements are set out from pages 110 to 262 in the annual report of the Company for the year ended 31 December 2022 (the “**2022 Annual Report**”) which was published on 27 April 2023 on the websites of the Company (<http://www.chinaysgroup.com>) and the Stock Exchange (<https://www1.hkexnews.hk/listedco/listconews/sehk/2023/0426/2023042601376.pdf>).

The 2023 Interim Financial Statements are set out from pages 2 to 22 in the interim results announcement of the Company for the six months ended 30 June 2023 (the “**2023 Interim Results Announcement**”) which was published on 16 August 2023 on the website of the Company (<http://www.chinaysgroup.com>) and the Stock Exchange (<http://www1.hkexnews.hk/listedco/listconews/sehk/2023/0816/2023081601375.pdf>).

The 2020 Financial Statements, the 2021 Financial Statements, the 2022 Financial Statements and the 2023 Interim Financial Statements (but not any other part of the 2020 Annual Report, the 2021 Annual Report and the 2022 Annual Report and the 2023 Interim Results Announcement in which they respectively appear) are incorporated by reference into this Composite Document and form part of this Composite Document.

2. INDEBTEDNESS OF THE GROUP

As at 30 June 2023, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this Composite Document, the Group had outstanding indebtedness of approximately RMB244.6 million, comprising (i) borrowings of approximately RMB240.4 million; (ii) interest accrued on such borrowings amounted to approximately RMB1.2 million, which were subject to mortgages over the Group’s buildings, land use right, investment properties and construction in progress; and (iii) capital commitment of approximately RMB3.0 million.

Save as disclosed above and apart from intra-group liabilities and guarantees and normal trade and other payables in the ordinary course of business, as at 30 June 2023, 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 debt securities issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, finance leases or hire purchases commitments, guarantees, material covenants, or other material contingent liabilities.

3. MATERIAL CHANGE

The Directors confirm that save as disclosed in the Company's announcement in relation to the interim results for the six months ended 30 June 2023 ("1H2023") dated 16 August 2023 including:

- (i) the improvement in gross profit for 1H2023 by approximately RMB9.5 million, representing an increase of approximately 27.6%, as compared to the corresponding period in 2022 was due to (i) the increase in rental income from Yongsheng Plaza as a result of the increase in occupancy rate since late 2022; and (ii) the increase in revenue from processing services and the decrease in raw materials cost of the dyeing and processing of differentiated polyester filament fabric segment;
- (ii) the decrease in other income and gains (net) for 1H2023 by approximately RMB3.5 million, representing a decrease of approximately 36.1%, as compared to the corresponding period in 2022 as a result of a decrease in bank and other interest income and fair value gains on financial assets at fair value through profit or loss in 1H2023, and an increase in fair value losses on derivative financial instruments in 1H2023 as compared to the corresponding period in 2022;
- (iii) the increase in profit for the period from continuing operations for 1H2023 by approximately RMB4.5 million, representing an increase of approximately 37.9%, as compared to the corresponding period in 2022 mainly attributable to the improvement in gross profit for reasons as stated in (i) above; and
- (iv) the increase in profit for the period for 1H2023 by approximately RMB5.9 million, representing an increase of approximately 56.8%, as compared to the corresponding period in 2022 as a result of the improvement in gross profit due to reasons as stated in (i) above and the disposal of the then loss-making renovation, maintenance, alteration and addition services segment in June 2022,

there had been no other material change in the financial or trading position or outlook of the Group since 31 December 2022 (the date to which the latest audited consolidated financial statements of the Group were made up) and up to and including the Latest Practicable Date.

The following is the text of a letter and valuation certificates prepared for the purpose of incorporation in this Composite Document received from AVISTA Valuation Advisory Limited, an independent valuer, in connection with its valuation as at 31 May 2023 of the property interests held by the Group.



Suites 2401-06, 24/F, Everbright Centre, 108 Gloucester Road,
Wan Chai, Hong Kong

TEL : +852 3702 7338 FAX : +852 3914 6388

info@avaval.com

www.avaval.com

31 August 2023

The Board of Directors

Yongsheng Advanced Materials Company Limited (永盛新材料有限公司)

Room B, 31/F, King Palace Plaza No. 55 King Yip Street

Kwun Tong, Kowloon Hong Kong

Dear Sirs/Madams,

INSTRUCTIONS

In accordance with the instructions of Yongsheng Advanced Materials Company Limited (永盛新材料有限公司)(the “**Company**”) and its subsidiaries (hereinafter together referred to as the “**Group**”) for us to carry out the valuation of the property interests (the “**Property**”) located in the People’s Republic of China (the “**PRC**”) held by the Group. We confirm that we have carried out inspection, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of the Property as at 31 May 2023 (the “**Valuation Date**”).

BASIS OF VALUATION AND VALUATION STANDARDS

Our valuation is carried out on a market value basis, which is defined by the Royal Institution of Chartered Surveyors as “*the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion*”.

In valuing the Property, we have complied with all the requirements set out in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”), Rule 11 of the Code on Takeovers and Mergers issued by Securities and Futures Commission, the RICS Valuation – Global Standards 2022 published by the Royal Institution of Chartered Surveyors (“**RICS**”) and the International Valuation Standards published from time to time by the International Valuation Standards Council.

The property-related potential tax liability which might arise on disposal of the Property Interests (as property transfer) in the PRC include value-added tax (at 5% or 9% on the transaction amount), land appreciation tax (at progressive rates from 30% to 60% on the appreciation amount) and corporate income tax (at 15% in case of preferential enterprise income tax rate or 25% of the gain). As confirmed by the Group, the Property is either held for investment or owner-occupation. Therefore, the likelihood of such tax liability being crystallized to the Group is slim and is excluded from our valuation.

CATEGORISATION OF PROPERTY INTERESTS

In the course of our valuation, the Property have been categorized according firstly to type of interests held by the Group, which in turn being classified into the following groups:

Group I – Property interests held for owner occupation by the Group in the PRC

Group II – Property interests held for investment by the Group in the PRC

VALUATION ASSUMPTIONS

Our valuation of the Property excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangement, special considerations or concessions granted by anyone associated with the sale, or any element of special value or costs of sale and purchase or offset for any associated taxes.

No allowance has been made in our report for any charges, mortgages or amounts owing on any of the Property valued nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the Property are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect its value.

In the course of our valuation of the Property in the PRC, we have relied on the advice given by the Group and its legal adviser, being QiJin Law Firm (浙江啟金律師事務所)(the “**PRC Legal Adviser**”), regarding the title to the Property.

In valuing the Property, we have relied on a legal opinion regarding the property interests provided by the PRC Legal Adviser dated 6 May 2023 (the “**PRC Legal Opinion**”). Unless otherwise stated, the Group has legally obtained the land use rights and building ownerships of the Property and the grantees or the users of the property have free and uninterrupted rights to use, assign and dispose the property for the whole of the unexpired term as granted.

No environmental impact study has been ordered or made. Full compliance with applicable national, provincial and local environmental regulations and laws is assumed.

VALUATION METHODOLOGY

In valuing the property interests in Group I, due to the nature of the buildings and structures of the property interests, there are no market sales comparables readily available, we have valued a property on the basis of its depreciated replacement cost. Depreciated replacement cost is defined as “the current cost of replacing an asset with its modern equivalent asset less deduction for physical deterioration and all relevant forms of obsolescence and optimization”. It is based on an estimation of the market value for the existing use of the land, plus the current cost of replacement (reproduction) of the building, including the improvements, less deductions for physical deterioration and all relevant forms of obsolescence and optimization.

In valuing the property interests in Group II, we have valued by the term and reversion method to determine the market value of the properties. The term and reversion method takes into considerations of the term value of the properties by capitalizing the rental income over the existing lease terms and the reversionary value by capitalizing the current market rental income of the properties until the end of the land use right terms. The current market rent adopted in determining the reversionary value is based on the findings of rental comparables in the locality which share similar characteristics with the subject properties. When determining the parameter of capitalization rate or market yield, reference has been made to the current sale price and rental income of the properties in the locality which share similar characteristics with the subject properties. The term and reversion method estimates values of the properties by taking into considerations of the existing rental level and current market condition, without specifically involving the forecasting of future profits.

TITLE INVESTIGATION

We have been provided with copies of documents in relation to the title of the Property in the PRC. Where possible, we have examined the original documents to verify the existing title to the Property in the PRC and any material encumbrance that might be attached to the Property or any tenancy amendment. All documents have been used for reference only and all dimensions, measurements and areas are approximate. In the course of our valuation, we have relied considerably on the PRC Legal Opinion given by the PRC Legal Adviser, concerning the validity of title of the Property in the PRC.

SITE INVESTIGATION

We have inspected the exteriors and, where possible, the interior of the Property. The site inspections were carried out on 8 May 2023, 9 May 2023 and 10 May 2023 by Samuel Lau (Senior Valuer) who has about 5 years' experience in the valuation of properties in the PRC. In the course of our inspection, we did not note any serious defects. However, we have not carried out an investigation on site to determine the suitability of ground conditions and services for any development thereon. Our valuation has been prepared on the assumption that these aspects are satisfactory. We have further assumed that there is no significant pollution or contamination in the locality which may affect any future developments.

Moreover, no structural surveys have been undertaken, but in the course of our inspection, we did not note any serious defects. We are not, however, able to report whether the Property is free of rot, infestation or any other structural defects. No tests were carried out on any of the utility services.

SOURCE OF INFORMATION

Unless otherwise stated, we shall rely to a considerable extent on the information provided to us by the Group or the PRC Legal Adviser or other professional advisers on such matters as statutory notices, planning approvals, zoning, easements, tenures, completion date of buildings, development proposal, identification of Property, particulars of occupation, site areas, floor areas, matters relating to tenure, tenancies and all other relevant matters.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also sought confirmation from the Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view and we have no reason to suspect that any material information has been withheld.

We have not carried out detailed measurements to verify the correctness of the areas in respect of the Property but have assumed that the areas shown on the title documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

LIMITING CONDITION

Wherever the content of this report is extracted and translated from the relevant documents supplied in Chinese context and there are discrepancies in wordings, those parts of the original documents will take prevalent.

CURRENCY

Unless otherwise stated, all monetary amounts stated in this report are in Renminbi (RMB). Our valuations are summarized below and the valuation certificates are attached.

Yours faithfully,
For and on behalf of
AVISTA Valuation Advisory Limited
Vincent C B Pang
MRICS CFA FCPA FCPA Australia
RICS Registered Valuer
Managing Partner

Notes: Mr. Vincent C B Pang is a member of Royal Institution of Chartered Surveyors (RICS) and a registered valuer of RICS. He has over 10 years' experience in the valuation of properties including Hong Kong, the PRC, the U.S., East and Southeast Asia.

SUMMARY OF VALUES

Abbreviation

Group I: Property interests held for owner occupation by the Group in the PRC

Group II: Property interests held for investment by the Group in the PRC

“–” or N/A: Not applicable or not available

No.	Property	Market value	Market value	Interest	Market value
		in existing state as at	in existing state as at		Attributable to the Group as at
		31 May 2023	31 May 2023	Attributable to	31 May 2023
		RMB	RMB	the Group	RMB
		Group I	Group II		
1.	Yi Nan Cun and Wei Nan Cun, Jing Jiang Jie Dao, Xiaoshan District, Hangzhou City, Zhejiang Province, the PRC (中國浙江省杭州市蕭山區靖江街道義南村、偉南村)	103,560,000	–	100%	103,560,000
2.	No. 1188 Tian Men Da Dao Nan Duan, Yushan District, Maanshan City, Anhui Province, the PRC (中國安徽省馬鞍山市雨山區天門大道南段1188號)	86,770,000	–	60%	52,062,000
3.	Units 1601, 1602, 1603, 1604, 1701, 1702, 1703 and 1704, Block 1, Zhe Jiang Min Ying Qi Ye Fa Zhan Building, No. 3 Fu Ye Xiang, Xiaoshan District, Hangzhou City, Zhejiang Province the PRC (中國浙江省杭州市蕭山區寧圍街道富業巷3號浙江民營企業發展大廈1幢1601、1602、1603、1604、1701、1702、1703及1704室)	–	34,110,000	100%	34,110,000
4.	Yongsheng Plaza, Economic and Technological Development Zone, Xiaoshan District, Hangzhou City, Zhejiang Province, the PRC (中國浙江省杭州市蕭山區經濟技術開發區永盛大廈)	–	396,930,000	100%	396,930,000
Total:		190,330,000	431,040,000		586,662,000

VALUATION CERTIFICATE

Group I – Property interests held for owner occupation by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 May 2023 RMB
1.	Yi Nan Cun and Wei Nan Cun, Jing Jiang Jie Dao, Xiaoshan District, Hangzhou City, Zhejiang Province, the PRC (中國浙江省杭州市蕭山區靖江街道義南村、偉南村)	<p>The property comprises a parcel of land with a total site area of approximately 65,141 sq.m. together with 3 industrial buildings, a 4-storey dormitory, two ancillary office buildings, an electric distribution room and a water purification plant, completed in about 2004 to 2007.</p> <p>The total gross floor area of the Property is approximately 43,086.68 sq.m.</p> <p>The property is located at the junction of Hong Ye Road and Qing Liu Nan Road in Xiaoshan District of Hangzhou City, with approximately 1.5 km to Yongsheng Road Station of Hangzhou Metro and 15.5 km to Hangzhou Xiaoshan International Airport.</p> <p>The land use rights of the property have been granted for a term expiring on 7 August 2053 for industrial use.</p>	As at the Valuation Date, the Property was owner-occupied.	103,560,000 (100% interest attributable to the Group: 103,560,000)

Notes:

- Pursuant to a State-owned Land Use Rights Certificates – Hang Xiao Guo Yong (2008) Di No. 3000002 issued by Hangzhou Municipal Bureau of Land Resources (杭州市國土資源局), the land use rights of the property have been granted to Hangzhou Huvis Yongsheng Dyeing and Finishing Co. Limited (杭州滙維仕永盛染整有限公司), a wholly owned subsidiary of the Company, for a term expiring on 7 August 2053 for industrial use.

2. Pursuant to 11 Building Ownership Certificates issued by Hangzhou Real Estate Administration Bureau (杭州市房產管理局), the property with a total gross floor area of approximately 43,086.68 sq.m. have been vested to Hangzhou Huvis Yongsheng Dyeing and Finishing Co. Limited (杭州滙維仕永盛染整有限公司) with key details as follows:

Building Ownership Certificate No.	Issue Date	Gross Floor Area (sq.m.)
Hang Fang Quan Zheng Xiao Zi Di No. 0087794	15 December 2009	1,807.44
Hang Fang Quan Zheng Xiao Zi Di No. 0087769	15 December 2009	1,556.47
Hang Fang Quan Zheng Xiao Zi Di No. 0087795	15 December 2009	963.23
Hang Fang Quan Zheng Xiao Zi Di No. 070933	15 December 2009	16,267.60
Hang Fang Quan Zheng Xiao Zi Di No. 00031172	15 December 2009	3,501.71
Hang Fang Quan Zheng Xiao Zi Di No. 00065281	24 December 2008	15,923.00
Hang Fang Quan Zheng Xiao Zi Di No. 00065280	24 December 2008	1,848.00
Hang Fang Quan Zheng Xiao Zi Di No. 00060414	28 August 2008	156.10
Hang Fang Quan Zheng Xiao Zi Di No. 00060415	28 August 2008	39.33
Hang Fang Quan Zheng Xiao Zi Di No. 00060416	28 August 2008	189.10
Hang Fang Quan Zheng Xiao Zi Di No. 00060417	28 August 2008	834.70

3. We have been provided with the PRC Legal Opinion, which contains, *inter alia*, the following: -
- a. The Group has legally and validly obtained the land use rights and the building ownership of the property under the terms of the State-owned Land Use Rights Certificates and Building Ownership Certificates;
 - b. The building ownership of the property was pledged to Agricultural Bank of China Limited Xiaoshan Branch (中國農業銀行股份有限公司蕭山分行);
 - c. The property was not seized or subjected to any encumbrances; and
 - d. The Group has the right to freely occupy, use, transfer, dispose, lease and mortgage the property.
4. Our valuation has been made on the following basis and analysis:

In our valuation of the land use rights, we have considered and analysed 3 land sale comparables in the vicinity. The site value of the land sale comparables is ranging from RMB750 to RMB771 per sq.m. for industrial use. The unit rate adopted in the valuation is consistent with the unit rates of the relevant comparables after due adjustments in terms of location, time and size, etc.

Regarding the building portion, the current replacement cost of the building is assessed by determining a construction cost of a modern substitute building with the same service capacity of the building which is being valued. The replacement cost ranged from RMB1,500 per sq.m. to RMB1,800 per sq.m. for industrial buildings and from RMB2,500 per sq.m. to RMB2,800 per sq.m. for multi-storey ancillary buildings based on our research of the local construction costs. The replacement cost adopted in the valuation is consistent with the findings of our research.

VALUATION CERTIFICATE

Group I – Property interests held for owner occupation by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 May 2023 RMB
2.	No. 1188 Tian Men Da Dao Nan Duan, Yushan District, Maanshan City, Anhui Province, the PRC (中國安徽省馬鞍山市兩山區天門大道南段1188號)	<p>The property comprises two parcels of land with a total site area of approximately 84,692.45 sq.m. together with 2 industrial buildings and 3 ancillary buildings, completed in about 2013.</p> <p>The total gross floor area of the Property is approximately 41,107.50 sq.m.</p> <p>The property is located at southwest of the junction of Xin Qi Nan Road and Long Shan Road in Yushan District of Maanshan City, with approximately 15.9 km to Maanshan East Railway Station and 52 km to Nanjing Lukou International Airport.</p> <p>The land use rights of the property have been granted for a term expiring on 20 October 2060 for industrial use.</p>	As at the Valuation Date, the Property was owner-occupied.	86,770,000 (60% interest attributable to the Group: 52,620,000)

Notes:

1. Pursuant to 2 Real Estate Ownership Certificates – Wan (2022) Maanshan Shi Bu Dong Chan Quan Di No. 0025713 and Wan (2022) Maanshan Shi Bu Dong Chan Quan Di No. 0025714 issued by the Natural Resources and Planning Bureau of Maanshan City (馬鞍山市自然資源和規劃局), the land use rights of a term expiring on 20 October 2060 for industrial use and the building ownership of the Property with a total gross floor area of approximately 41,107.50 sq.m. for industrial use have been vested to Anhui Yingya Inya New Material Technology Company Limited (安徽英雅新材料科技有限公司), a 60%-owned subsidiary of the Company.
2. We have been provided with the PRC Legal Opinion, which contains, *inter alia*, the following:–
 - a. The Group has legally and validly obtained the land use rights and the building ownership of the property under the terms of the Real Estate Ownership Certificates;
 - b. The property was not pledged, seized or subjected to any encumbrances; and
 - c. The Group has the right to freely occupy, use, transfer, dispose, lease and mortgage the property.
3. Our valuation has been made on the following basis and analysis:

In our valuation of the land use rights, we have considered and analysed 4 land sale comparables in the vicinity. The site value of the land sale comparables is ranging from RMB355 to RMB366 per sq.m. for industrial use. The unit rate adopted in the valuation is consistent with the unit rates of the relevant comparables after due adjustments in terms of location, time and size, etc.

Regarding the building portion, the current replacement cost of the building is assessed by determining a construction cost of a modern substitute building with the same service capacity of the building which is being valued. The replacement cost ranged from RMB1,500 per sq.m. to RMB1,800 per sq.m. for industrial buildings based on our research of the local construction costs. The replacement cost adopted in the valuation is consistent with the findings of our research.

VALUATION CERTIFICATE

Group II – Property interests held for investment by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 May 2023 RMB
3.	Units 1601, 1602, 1603, 1604, 1701, 1702, 1703 and 1704, Block 1, Zhe Jiang Min Ying Qi Ye Fa Zhan Building, No. 3 Fu Ye Xiang, Xiaoshan District, Hangzhou City, Zhejiang Province the PRC (中國浙江省杭州市蕭山區寧圍街道富業巷3號浙江民營企業發展大廈1幢1601、1602、1603、1604、1701、1702、1703及1704室)	<p>The property comprises 8 office units on the sixteenth and seventeenth floor of a 29-storey office building within a development named Zhe Jiang Min Ying Qi Ye Fa Zhan Building, completed in about 2013.</p> <p>The total gross floor area of the Property is approximately 2,648.78 sq.m.</p> <p>The property is located on the sixteenth and seventeenth floor of Zhe Jiang Min Ying Qi Ye Fa Zhan Building, at the junction of Min He Road and Fu Ye Xiang in Xiaoshan District of Hangzhou City, with approximately 1 km to Feihong Road Station of Hangzhou Subway and 19.3 km to Hangzhou Xiaoshan International Airport.</p> <p>The land use rights of the property have been granted for a term expiring on 10 March 2048 for commercial and financial use.</p>	<p>The Property with a lettable area of 2,649.58 sq.m. was leased to 3 tenants for office use as at the Valuation Date.</p>	<p>34,110,000 (100% interest attributable to the Group: 34,110,000)</p>

Notes:

- Pursuant to 2 State-owned Land Use Rights Certificates – Hang Xiao Guo Yong (2015) Di No. 012299 and Hang Xiao Guo Yong (2015) Di No. 012311 issued by Hangzhou Municipal Bureau of Land Resources (杭州市國土資源局), the land use rights of the property have been granted to Hangzhou Yonghao Investment Management Company Limited (杭州永浩投資管理有限公司), a wholly-owned subsidiary of the Company, for a term expiring on 10 March 2048 for commercial and financial use.
- Pursuant to 2 Building Ownership Certificates – Hang Fang Quan Zheng Xiao Yi Zi Di No. 15425161 and Hang Fang Quan Zheng Xiao Yi Zi Di No. 15425164 issued by Hangzhou Housing Security and Real Estate Administration Bureau (杭州市住房保障和房產管理局), the property with a total gross floor area of approximately 2,648.78 sq.m have been vested to Hangzhou Yonghao Investment Management Company Limited (杭州永浩投資管理有限公司).

3. Pursuant to 4 tenancy agreements and advised by the Company, the property with a lettable area of 2,649.58 sq.m. was leased to 3 independent third parties for office use at a total monthly rent of RMB160,894 (inclusive of value-added tax) for various terms with the expiry dates of 30 November 2024 and 13 September 2028.
4. We have been provided with the PRC Legal Opinion, which contains, *inter alia*, the following:–
 - a. The Group has legally and validly obtained the land use rights and the building ownership of the property under the terms of the State-owned Land Use Rights Certificates and Building Ownership Certificates;
 - b. The property was not pledged, seized or subjected to any encumbrances; and
 - c. The Group has the right to freely occupy, use, transfer, dispose, lease and mortgage the property.
5. Our valuation has been made on the following basis and analysis:

In the course of our valuation of the property, we have made references to various relevant rental evidences in the locality which have similar characteristics as the subject property such as nature, use and accessibility. The adopted unit rents of the comparables are ranging from RMB2.4 to RMB2.51 per sq.m. of per day. When determining the market yield, references have been made to the sale price and rental income of the property in the locality which have similar characteristics as the subject property. The market yield adopted by us is 4%, which is consistent with the market yield of these property sector in the range of 3.5% to 5%.

VALUATION CERTIFICATE

Group II – Property interests held for investment by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 May 2023 RMB
4.	Yongsheng Plaza, Economic and Technological Development Zone, Xiaoshan District, Hangzhou City, Zhejiang Province, the PRC (中國浙江省杭州市蕭山區經濟技術開發區永盛大廈)	<p>The property is a 24-storey commercial building named Yongsheng Plaza (永盛大廈). It comprises 21 office storeys built above 3 commercial storeys and a 3-storey car park basement. As advised by the Group, the property was completed in about 2021.</p> <p>The total gross floor area of the Property is approximately 41,643.61 sq.m. Twenty-first and twenty-fourth floor of the property with a total gross floor area of 2,934 sq.m. are held for owner-occupation by the Group.</p> <p>Portion of the property situated on tenth to sixteenth floor, eighteen floor, nineteenth floor and twenty-first to twenty-fourth floor of Yongsheng Plaza, with a gross floor area of 21,009.56 sq.m (“Property with sale restriction”) is subject to sale restriction. Portion of the property situated on the remaining floors, except the 3-storey car park basement, with a gross floor area of 20,634.05 sq.m. (“Property without sale restriction”) is free from the sale restriction. As advised by the Group, the 3-storey car park basement (the “Car park”) comprises a total number of 477 car parking spaces.</p> <p>The property is located at the junction of Jian She San Road and Bo Ao Road in Xiaoshan District of Hangzhou City, with approximately 1 km to Mingxing Road Station of Hangzhou Subway and 21 km to Hangzhou Xiaoshan International Airport.</p> <p>The land use rights of the property have been granted for a term expiring on 4 March 2053 for commercial use.</p>	<p>The property with a lettable area of 36,590.58 sq.m. was leased to various tenants for commercial and office use as at the Valuation Date. The remaining portion of the property was owner-occupied or vacant.</p>	<p>396,930,000 (100% interest attributable to the Group: 396,930,000)</p>

Notes:

1. Pursuant to 24 Real Estate Ownership Certificates issued by the Planning and Natural Resources Bureau of Hangzhou City (杭州市規劃和自然資源局), the land use rights for a term expiring on 4 March 2053 for commercial use and the building ownership of the property with a total gross floor area of approximately 41,643.61 sq.m. have been vested to Hangzhou Yonghao Investment Management Company Limited (杭州永浩投資管理有限公司), a wholly-owned subsidiary of the Company with key details as follows:

Real Estate Ownership Certificate No.	Issue Date	Gross Floor Area (sq.m.)
Zhe (2021) Xiao Shan Qu Bu Dong Chan Quan Di No. 0064076	11 June 2021	1,493.19
Zhe (2021) Xiao Shan Qu Bu Dong Chan Quan Di No. 0064077	11 June 2021	1,828.59
Zhe (2021) Xiao Shan Qu Bu Dong Chan Quan Di No. 0064078	11 June 2021	1,675.74
Zhe (2021) Xiao Shan Qu Bu Dong Chan Quan Di No. 0064079	11 June 2021	1,493.19
Zhe (2021) Xiao Shan Qu Bu Dong Chan Quan Di No. 0064080	11 June 2021	1,440.81
Zhe (2021) Xiao Shan Qu Bu Dong Chan Quan Di No. 0064081	11 June 2021	2,839.65
Zhe (2021) Xiao Shan Qu Bu Dong Chan Quan Di No. 0064082	11 June 2021	1,675.74
Zhe (2021) Xiao Shan Qu Bu Dong Chan Quan Di No. 0064083	11 June 2021	1,675.74
Zhe (2021) Xiao Shan Qu Bu Dong Chan Quan Di No. 0064084	11 June 2021	1,522.52
Zhe (2021) Xiao Shan Qu Bu Dong Chan Quan Di No. 0064085	11 June 2021	1,675.74
Zhe (2021) Xiao Shan Qu Bu Dong Chan Quan Di No. 0064086	11 June 2021	1,675.74
Zhe (2021) Xiao Shan Qu Bu Dong Chan Quan Di No. 0064087	11 June 2021	1,675.74
Zhe (2021) Xiao Shan Qu Bu Dong Chan Quan Di No. 0064088	11 June 2021	1,565.16
Zhe (2021) Xiao Shan Qu Bu Dong Chan Quan Di No. 0064089	11 June 2021	1,675.74
Zhe (2021) Xiao Shan Qu Bu Dong Chan Quan Di No. 0064090	11 June 2021	1,440.81
Zhe (2021) Xiao Shan Qu Bu Dong Chan Quan Di No. 0064091	11 June 2021	1,705.69
Zhe (2021) Xiao Shan Qu Bu Dong Chan Quan Di No. 0064092	11 June 2021	1,705.69
Zhe (2021) Xiao Shan Qu Bu Dong Chan Quan Di No. 0064093	11 June 2021	2,946.96
Zhe (2021) Xiao Shan Qu Bu Dong Chan Quan Di No. 0064094	11 June 2021	1,705.69
Zhe (2021) Xiao Shan Qu Bu Dong Chan Quan Di No. 0064095	11 June 2021	1,522.52
Zhe (2021) Xiao Shan Qu Bu Dong Chan Quan Di No. 0064096	11 June 2021	1,675.74
Zhe (2021) Xiao Shan Qu Bu Dong Chan Quan Di No. 0064097	11 June 2021	1,675.74
Zhe (2021) Xiao Shan Qu Bu Dong Chan Quan Di No. 0064098	11 June 2021	1,675.74
Zhe (2021) Xiao Shan Qu Bu Dong Chan Quan Di No. 0064099	11 June 2021	1,675.74

2. Pursuant to 22 tenancy agreements and advised by the Company, the property with a lettable area of 36,536.58 sq.m. was leased to various independent third parties and intra-group companies for commercial/office use at a total monthly rent of RMB3,134,507 (inclusive of value-added tax) for various terms with the expiry dates between 30 September 2024 and 15 April 2032.

3. We have been provided with the PRC Legal Opinion, which contains, *inter alia*, the following:–
- a. The Group has legally and validly obtained the land use rights and the building ownership of the property under the terms of the Land Use Rights Grant Contract and Real Estate Ownership Certificates, expect for the 3-storey car park basement of the property, with a total number of 477 car parking spaces;
 - b. The Group has not obtained valid title certificates regarding the 3-storey car park basement with a total number of 477 car parking spaces. Therefore, the car parking spaces are not freely transferable;
 - c. According to the Land Use Right Contract and Real Estate Ownership Certificates, portion of the property, with a total gross floor area of 21,009.56 sq.m. is subject to sale restriction, including the form of strata-title sale;
 - d. Property with sale restriction was pledged to Zhejiang Xiaoshan Rural Commercial Bank Jing Jiang Sub-Branch (浙江蕭山農村商業銀行股份有限公司靖江支行);
 - e. Property without sale restriction was not pledged, seized or subjected to any encumbrances; and
 - f. The Group has the right to freely occupy, use, transfer (for Property without sale restriction only), dispose (for Property without sale restriction only), lease and mortgage the property.

4. According to note 3(c), portion of the property is subject to sale restriction. Therefore, market value is not applicable in the valuation. However, we have conducted an assessment on an investment value basis, which is a non-marketable value basis for management reference. According to International Valuation Standards, investment value is defined as “**the value of an asset to the owner or a prospective owner for individual investment or operational objectives**”. Investment value is an entity-specific basis of value which reflects the benefits received by an entity from holding the asset, without necessarily involving a hypothetical exchange. It is important to note that the investment value is not equivalent to the market value.

With regard to the above, the investment value of the Property with sale restriction under note 3(c) in existing state as at 31 May 2023 was RMB376,020,000.

5. In undertaking our valuation, we have assigned no commercial value to the Car park under note 3(b) since it has not obtained valid title certificates. For reference purpose, we are of the opinion that the estimated value of the Car park under note 3(b) as at 31 May 2023 would be RMB 65,390,000, assuming the Car park has obtained valid title certificates and could be freely transferred in the market.
6. For determining the market value of the Property without sale restriction, our valuation has been made on the following basis and analysis:

In the course of our valuation, we have made references to various relevant rental evidences in the locality which have similar characteristics as the subject property such as nature, use and accessibility. The adopted unit rents of the comparables are ranging from RMB3.2 to RMB3.3 per sq.m. of per day for office units and RMB6.5 to RMB6.8 per sq.m. of per day for retail units. When determining the market yield, references have been made to the sale price and rental income of the properties in the locality which have similar characteristics as the subject property. The market yields adopted by us are 4% for office unit and 5.5% for retail units, which are consistent with the market yield of these property sectors in the range of 3.5% to 6.5%.

1. RESPONSIBILITY STATEMENTS

This Composite Document includes particulars given in compliance with the Takeovers Code for the purpose of giving information with regarding to the Group and the Offers.

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 confirm, having made all reasonable enquiries, that to the best of his knowledge, opinions expressed in this Composite Document (other than those expressed by the Directors in their capacity as 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.

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

2. SHARE CAPITAL OF THE COMPANY

As at the Latest Practicable Date:

- (a) the authorised share capital of the Company was HK\$20,000,000 divided into 2,000,000,000 Shares;
- (b) the issued share capital of the Company was HK\$7,080,080.90 divided into 708,008,090 Shares;
- (c) the Company had not issued any new Shares since 31 December 2022, being the end of the last financial year of the Company, up to the Latest Practicable Date;
- (d) all of the Shares rank *pari passu* in all respects as regards rights to capital, dividends and voting;

- (e) as at the Latest Practicable Date, there were 3,938,200 outstanding Share Options granted under the Share Option Schemes. The following table sets out the exercise price of each of the outstanding Share Options and their respective exercise price as at the Latest Practicable Date:

Exercise price per Share	Name of the Optionholders	Number of outstanding Share Options in aggregate
HK\$1.095	Mr. Ma	2,200,000
	Remaining Optionholders	<u>2,939,400</u>
	Sub-total:	<u>5,139,400</u>
HK\$1.195	Mr. Ma	2,200,000
	Remaining Optionholders	<u>6,598,800</u>
	Sub-total:	<u>8,798,800</u>
	Total:	<u><u>13,938,200</u></u>

- (f) other than the Share Options as disclosed in paragraph (e) above, there are no other outstanding options, convertible securities, warrants, derivatives or other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) issued by the Company as at the Latest Practicable Date that carried a right to subscribe for or which were convertible or exchangeable into any Shares.

3. MARKET PRICES OF THE SHARES

The table below sets out the closing price of the Shares quoted on the Stock Exchange on: (i) the last Business Day of each of the calendar month during the period commencing six months preceding the Announcement Date up to the Latest Practicable Date; (ii) the Last Trading Day; and (iii) the Latest Practicable Date:

Dates	Closing price (HK\$)
30 December 2022	0.82
31 January 2023	0.85
28 February 2023	0.71
31 March 2023	0.74
28 April 2023	0.73
31 May 2023	0.58
8 June 2023 (Last Trading Day)	0.63
30 June 2023 ^(Note)	0.95
31 July 2023	0.94
28 August 2023 (Latest Practicable Date)	0.95

Note: Trading in the Shares on the Stock Exchange was halted from 9 June 2023 to 25 June 2023 pending the release of the Announcement.

During the Relevant Period, the lowest closing price and the highest closing price of the Shares as quoted on the Stock Exchange were HK\$0.58 per Share on 18 May 2023, 19 May 2023, 31 May 2023 and 1 June 2023 and HK\$0.96 per Share on 27 June 2023, respectively.

4. DISCLOSURE OF INTERESTS AND DEALINGS

For the purpose of this paragraph 4 in this Appendix IV to this Composite Document, “interested” has the same meaning as ascribed to that term in Part XV of the SFO.

The Offeror

As at the Latest Practicable Date:

- (1) save as disclosed in the paragraphs headed “The Company – (a) Directors and chief executives’ interests and short positions in the Shares, underlying shares and debentures of the Company and its associated corporations” and “The Company – (b) Substantial Shareholders’ interests and short positions in the Shares, underlying shares and securities of the Company” below, the Offeror and the Offeror Concert Parties did not own, control or have direction over any other rights or interests in the issued share capital or voting rights of the Company;
- (2) save as disclosed in the paragraph headed “The Company – (a) Directors and chief executives’ interests and short positions in the Shares, underlying shares and debentures of the Company and its associated corporations” below, the sole director of the Offeror (i.e. Mr. Li) was not interested in any Shares, convertible securities, warrants, options or derivatives in respect of any Shares;
- (3) save as the 4,400,000 Share Options held by Mr. Ma, the Offeror and Offeror Concert Parties did not hold any warrants, options, derivatives or other securities that are convertible or exchangeable into Shares or other types of equity interests in the Company;
- (4) there was no outstanding derivative in respect of the securities in the Company which has been entered into by the Offeror or Offeror Concert Parties;
- (5) the Offeror and the Offeror Concert Parties have not received any irrevocable commitment to accept or reject the Share Offer or the Option Offer;
- (6) there was no agreement, arrangement or understanding (including any compensation arrangement) existing between the Offeror and Offeror Concert Parties on the one hand, and any Directors, recent Directors, Shareholders or recent Shareholders having any connection with or dependence upon the Offers, Optionholders or recent Optionholders having any connection with or dependent upon the Offers on the other hand;
- (7) there are no agreements or arrangements to which the Offeror is a party which relate to circumstances in which it may or may not invoke or seek to invoke any Conditions;

- (8) there were no relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company which the Offeror or Offeror Concert Parties has/have borrowed or lent;
- (9) the Offeror and the Offeror Concert Parties had not dealt for value in any Shares, options, derivatives or other securities convertible or exchangeable into Shares or other types of equity interest in the Company during the Relevant Period;
- (10) other than the Offers, there were no arrangements (whether by way of option, indemnity or otherwise) of the kind referred to in Note 8 to Rule 22 of the Takeovers Code between the Offeror or Offeror Concert Parties or associates of the Offeror and any other person;
- (11) there was no understanding, arrangement, agreement or special deal (under Rule 25 of the Takeovers Code) between (a) any Shareholder; and (b)(i) the Offeror or Offeror Concert Parties or (b)(ii) the Company, its subsidiaries or associated companies; and
- (12) there was no understanding, arrangement or agreement under which securities to be acquired pursuant to the Offers will be transferred, charged, pledged to any other persons.

The Company

(a) Directors and chief executives' interests and short positions in the Shares, underlying shares and debentures of the Company and its associated corporations

As at the Latest Practicable Date, the interests and short positions of the Directors in the Shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein, (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) contained in the Listing Rules, to be notified to the Company and the Stock Exchange, or (iv) to be disclosed in this Composite Document pursuant to the requirements of the Takeovers Code, were as follows:

Long position in the Shares and underlying Shares

Name of Director	Capacity/Nature of interest	Number of Shares interested or held ⁽¹⁾	Approximate percentage of interest in the issued Shares
Mr. Li ⁽²⁾	Interest in controlled corporation	524,062,990 (L)	74.0%
Mr. Ma ⁽³⁾	Beneficial owner	7,075,677 (L)	1.0%

Notes:

- The letter "L" denotes a person's or a corporation's long position in the Shares.
- As at the Latest Practicable Date, Mr. Li beneficially owned 90% of the issued share capital of Astute which in turn, beneficially held 274,661,290 Shares. Mr. Li also beneficially owned approximately 95.71% of the issued share capital of Ever Thrive, which in turn beneficially held 249,401,700 Shares. Therefore, Mr. Li is deemed or taken to be interested in all the Shares held by Astute and Ever Thrive for the purposes of the SFO.
- As at the Latest Practicable Date, Share Options to subscribe for 4,400,000 Shares were granted to Mr. Ma. In addition, Mr. Ma beneficially owned 2,675,677 Shares. Therefore, Mr. Ma was interested in 7,075,677 Shares in aggregate. As at the Latest Practicable Date, Mr. Ma, being an executive Director, indicated that he intended to accept the Share Offer and the Option Offer.

Long position in shares of associated corporation

Name of Director	Name of associated corporation	Capacity/Nature of interest	Number of shares interested or held	Approximate percentage of shareholding
Mr. Li	Astute	Beneficial owner	90	90.00%
	Ever Thrive	Beneficial owner	446	95.71%

As at the Latest Practicable Date, save as disclosed above, none of the Directors nor chief executive of the Company had any interests or short positions in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (i) 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 the Director or chief executive of the Company was taken or deemed to have under such provisions of the SFO); (ii) pursuant to section 352 of the SFO, to be entered in the register of the Company referred to therein; (iii) pursuant to the Model Code, to be notified to the Company and the Stock Exchange; or (iv) to be disclosed in this Composite Document pursuant to the requirements of the Takeovers Code.

(b) Substantial Shareholders' interests and short positions in the Shares, underlying shares and securities of the Company

The table below sets out the interests of Shareholders (not being Directors or chief executives of the Company) in the Shares and underlying Shares or other securities of the Company carrying voting rights or convertible securities, warrants, options or derivatives of the Company as at the Latest Practicable Date which were notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO and disclosed pursuant to the Takeovers Code and required to be entered in the register maintained by the Company pursuant to section 336 of the SFO:

Name of substantial Shareholder	Capacity	Number of Shares interested or held ⁽¹⁾	Approximate percentage of shareholding (%)
Ever Thrive	Beneficial owner	49,401,700 (L)	35.2
Astute	Beneficial owner	247,661,290 (L)	38.8
Ms. Chen Fangqin	Interest of spouse ⁽²⁾	524,062,990 (L)	74.0

Notes:

- The letter "L" denotes a person's or a corporation's long position in the Shares.
- Ms. Chen Fangqin is the spouse of Mr. Li. Therefore, Ms. Chen Fangqin is deemed, or taken to be interested in all the Shares which are interested by Mr. Li for the purpose of the SFO.

As at the Latest Practicable Date, save as disclosed above, so far as was known to the Directors, no person had an interest or a short position in the shares or the underlying shares of the Company recorded in the register required to be kept by the Company under section 336 of the SFO or which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were, directly or indirectly, interested in 5% or more of the issued voting shares of any other member of the Group, or any options in respect of such share capital.

(c) Other interests

As at the Latest Practicable Date:

- the Company did not have any beneficial interest in the shares, convertible securities, warrants, options and derivatives of the Offeror, and the Company had not dealt for value in any shares, convertible securities, warrants, options or derivatives of the Offeror during the Relevant Period;

- (2) save for Mr. Li, who is an executive Director and is deemed to be the beneficial owner of the entire share capital of the Offeror, none of the Directors was interested in any shares of the Offeror or any convertible securities, warrants, options or derivatives in respect of the shares of the Offeror and had not dealt for value in any shares, convertible securities, warrants, options or derivatives of the Offeror during the Relevant Period;
- (3) save as disclosed in the paragraph headed “The Company – (a) Directors and chief executives’ interests and short positions in the Shares, underlying shares and debentures of the Company and its associated corporations” above, none of the Directors was interested in any Shares, securities which carry voting rights in the Company, or any convertible securities, warrants, options or derivatives in respect of the Shares or in respect of other securities which carry voting rights in the Company;
- (4) none of the Directors had dealt for value in any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares during the Relevant Period;
- (5) none of the subsidiaries of the Company, pension funds of the Company or of any subsidiaries of the Company, or person 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 person who is an associate of the Company by virtue of class (2) of the definition of “associate” under the Takeovers Code (but excluding exempt principal traders and exempt fund managers), owned or controlled any Shares or any convertible securities, warrants, options, or derivatives in respect of any Shares and none of them had dealt for value any Shares or any convertible securities, warrants, options, or derivatives in respect of any Shares in the Company during the Relevant Period;
- (6) no person who has an arrangement of any 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) or (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) or (4) of the definition of “associate” under the Takeovers Code, owned or controlled any Shares of any convertible securities, warrants, options, or derivatives in respect of the Shares and none of them had dealt for value in any securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company during the Relevant Period;

- (7) none of the non-exempt discretionary fund managers connected with the Company owned, controlled, or managed any Shares or any convertible securities, warrants, options, or derivatives in respect of the Shares and none of them had dealt for value in any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company during the Relevant Period;
- (8) neither the Company nor any of the Directors had borrowed or lent any Shares or any convertible securities, warrants, options or derivatives or any convertible securities, warrants, options, or derivatives in respect of the Shares, save for any borrowed Shares which have been either on-lent or sold;
- (9) no benefit was or would be given to any Director as compensations for loss of office or otherwise in connection with the Offers;
- (10) no agreement or arrangement existed between any Director and any other person which was conditional on or dependent upon the outcome of the Offers or otherwise connected with the Offers; and
- (11) no material contracts had been entered into by the Offeror in which any Director has a material personal interest.

5. INDICATION AS TO ACCEPTANCE

As at the Latest Practicable Date, Mr. Ma, an executive Director, holding 2,675,677 Shares and 4,400,000 Shares Options, has indicated that he will accept the Share Offer and the Option Offer in respect of his Share Options.

As at the Latest Practicable Date, save for Mr. Ma and Mr. Li (whose Shares are not subject to the Share Offer), no Director held any Shares or Share Options.

6. DIRECTORS' SERVICE CONTRACT

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

7. MATERIAL LITIGATION

As at the Latest Practicable Date, (i) none of the members of the Group was engaged in any litigation, arbitration or claim of material importance; and (ii) no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened against any member of the Group.

8. MATERIAL CONTRACTS

Save as disclosed below, no material contracts (not being contracts entered into in the ordinary course of business carried on or intended to be carried on by the Company or any of its subsidiaries) have been entered into by the Company or any of its subsidiaries after the date two years before the Announcement Date up to and including the Latest Practicable Date:

- (a) the investment agreement dated 9 November 2021 and entered into between (i) Inya (Zhejiang) Environment Consulting Limited* (英雅(浙江)環境諮詢有限公司) (“**PRC JV Company**”), an indirect non-wholly owned subsidiary of the Company; (ii) Mr. Shen Zhonghua; and (iii) Mr. Huang Lingchao regarding the formation of a joint venture company in the PRC with a total registered capital of RMB9 million, of which being held by the PRC JV Company, Mr. Shen Zhonghua and Mr. Huang Lingchao as to 40%, 40% and 20%, respectively;
- (b) the auction confirmation letter dated 30 December 2021 and entered into between Ma’anshan Intermediate People’s Court of the PRC, as auctioneer, and Anhui Yingya Inya New Material Technology Company Limited* (安徽英雅新材料科技有限公司), an indirect non-wholly owned subsidiary of the Company, as purchaser, in respect of the acquisition of two land parcels and certain ancillary factories and office buildings located at Ma’anshan city of Anhui Province of the PRC at a consideration of approximately RMB78.2 million;
- (c) the entrusted loan agreement dated 12 January 2022 and entered into between Hangzhou Huvis Yongsheng Dyeing and Finishing Company Limited* (杭州滙維仕永盛染整有限公司) (“**Yongsheng Dyeing**”), an indirect wholly-owned subsidiary of the Company, as entrusting party, and Agricultural Bank of China Co., Ltd. Xiaoshan Branch* (中國農業銀行股份有限公司蕭山分行) (the “**Lending Bank**”), as the entrusted party and the lender, in relation to the granting of the loan of RMB20,000,000 to Hangzhou Jimei Printing & Dyeing Co. Ltd.* (杭州集美印染有限公司) (“**Hangzhou Jimei**”);
- (d) the entrusted loan agreement dated 30 May 2022 and entered into between Yongsheng Dyeing, as entrusting party, and the Lending Bank, as the entrusted party and the lender, in relation to the granting of the loan of RMB6,000,000 to Hangzhou Jimei; and

- (e) the equity transfer agreement dated 21 June 2022 and entered into between the Company, as seller, and GLOW MEDIA LIMITED, as purchaser, regarding the disposal of Summer Power International Inc. by the Company at a consideration of HK\$34.5 million.

9. EXPERTS AND CONSENTS

The following are the qualifications of each of the experts who has given opinions or advice which are contained in this Composite Document:

Name	Qualification
Halcyon Capital	the financial adviser to the Offeror in respect of the Offers, a licensed corporation under the SFO, licensed to carry out Type 6 (advising on corporate finance) regulated activity
Halcyon Securities	the agent of the Offeror who is making the Offers for and on behalf of the Offeror, a licensed corporation under the SFO, licensed to carry out Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities) and Type 9 (asset management) regulated activities
Sommerley Capital Limited	the Independent Financial Adviser, a licensed corporation under the SFO, licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities
Avista Valuation Advisory Limited	property valuer

Each of the experts mentioned above has given and has not withdrawn its written consent to the issue of this Composite Document with the inclusion therein of its opinions, recommendation, and/or letters and/or the references to its name and logo in the form and context in which they respectively appear.

10. MISCELLANEOUS

- (a) The registered address of each of the Offeror, Ever Thrive and Astute is Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands.

- (b) Halcyon Securities is making the Offers for and on behalf of the Offeror. Halcyon Capital is the financial adviser to the Offeror in respect of the Offers. The principal place of business of Halcyon Securities and Halcyon Capital is at 11/F, 8 Wyndham Street, Central, Hong Kong.
- (c) Astute, which is a principal Offeror Concert Party, which is owned by (i) Mr. Li; (ii) Ms. Li Chunyan, who is a daughter of Mr. Li, a director of Astute and one of the Offeror Concert Parties; and (iii) Mr. Li Wenhua, who is a nephew of Mr. Li, a director of Astute and one of the Offeror Concert Parties, as to 90%, 5% and 5%, respectively. The directors of Astute are: (i) Mr. Li; (ii) Ms. Li Chunyan; (iii) Mr. Li Wenhua; (iv) Mr. Li Jianhao, who is a son of Mr. Li; and (v) Mr. Fu Chengyuan, who is a third party independent from the Company. Save for being a director of Astute, a son of Mr. Li, a brother of Ms. Li Chunyan and a cousin of Mr. Li Wenhua, Mr. Li Jianhao does not have other relationship with the Company, Mr. Li, Ms. Li Chunyan, Mr. Li Wenhua or Mr. Ma. Save for being a director of Astute which results in him being one of the Offeror Concert Parties, Mr. Fu does not have any other relationship with the Company, Mr. Li, Ms. Li Chunyan, Mr. Li Wenhua or Mr. Ma.
- (d) Ever Thrive, which is a principal Offeror Concert Party, is a company owned by Mr. Li as to approximately 95.7% and Ms. Li Chunyan as to approximately 4.3%, respectively. Mr. Li is the sole director of Ever Thrive.
- (e) As at the Latest Practicable Date, the ultimate controlling shareholder of the Offeror is Mr. Li.
- (f) In case of inconsistency, the English text of this Composite Document and the Form(s) of Acceptance shall prevail over the Chinese text.

11. DOCUMENTS ON DISPLAY

Copies of the following documents will be available for inspection (i) on the website of the SFC at <http://www.sfc.hk>; and (ii) on the website of the Company at <http://www.chinaysgroup.com> 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 memorandum and articles of association of the Company;
- (c) the annual reports of the Company for the two financial years ended 31 December 2021 and 2022 respectively;
- (d) the letter from Halcyon Securities, the text of which is set out on pages 12 to 25 of this Composite Document;

- (e) the letter from the Board, the text of which is set out on pages 26 to 37 of this Composite Document;
- (f) the letter from the Independent Board Committee, the text of which is set out on pages 38 to 39 of this Composite Document;
- (g) the letter from the Independent Financial Adviser, the text of which is set out on pages 40 to 81 of this Composite Document;
- (h) the report from the property valuer, the text of which is set out in Appendix III to this Composite Document;
- (i) the materials contracts referred to in the paragraph headed “8. Material contracts” in this Appendix IV to this Composite Document;
- (j) written consents referred to in the paragraph headed “9. Experts and consents” in this Appendix IV to this Composite Document;
- (k) the loan agreement dated 1 June 2023 and entered into by Ever Thrive and the Lender regarding the External Financing;
- (l) the approval given by Astute in favour of the Offeror for the purposes of Section 88 of the Cayman Islands Companies Act;
- (m) the approval given by Ever Thrive in favour of the Offeror for the purposes of Section 88 of the Cayman Islands Companies Act; and
- (n) this Composite Document.